1st Farm Credit Services, ACA

Quarterly Report
March 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of 1st Farm Credit Services, ACA (the parent) and 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our 2013 Annual Report for the year ended December 31, 2013.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in 1st Farm Credit Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report contact us at 2000 Jacobssen Drive, Normal, IL 61761, (309) 268-0100 or through our website at www.1stfarmcredit.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800 or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2013 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Cooler temperatures in March across Illinois allowed many farmers to get machinery ready for the season. Statewide temperatures averaged 33.3 degrees, 7.6 degrees below normal. Topsoil moisture conditions statewide were rated 83 percent adequate to surplus.

Illinois farmers intend to plant 11.9 million acres of corn for all purposes in 2014, down 1 percent from 2013. Across the United States, corn growers intend to plant 91.7 million acres in 2014, down 4 percent from last year and if realized, the lowest planted acreage since 2010. Expected returns for corn are anticipated to be lower in 2014 compared with recent years.

Illinois soybean producers begin the 2014 crop year intending to plant 9.5 million acres, up 1 percent from last year. Producers across the United States intend to plant an estimated 81.5 million acres of soybeans in 2014, up 6 percent from last year and an all-time record high. If realized, soybeans will surpass the previous record of 77.5 million acres planted in the United States set in 2009.

Corn prices in Central Illinois at March 31, 2014 were $4.83 per bushel, down $2.26 per bushel compared to one year ago. Lower prices will continue to benefit our livestock producers through lower feed costs. Soybean prices for the same period were $14.62 per bushel, up 42 cents per bushel.

According to the United States Department of Agriculture March 1, 2014 Hogs and Pigs Report, in the United States the number of hogs and pigs was at the lowest inventory since 2007 at 62.9 million head. The average pigs saved per litter was 9.53 for the December-February period, compared to 10.08 last year. This reduction correlates to the continued challenges of the PEDv (porcine epidemic diarrhea virus) in swine operations. However, because farrowings were up 2.8 percent, this quarter's pig crop was down just 2.8 percent from the same period one year ago. Producers are expected to improve their breeding programs to help recover some of the lost supplies.

LOAN PORTFOLIO

Loans were $4.4 billion at March 31, 2014, a $100.1 million decrease from December 31, 2013. This change was primarily due to increased repayments on operating loan balances, which is typical following post year end grain sales.

Portfolio Credit Quality

The credit quality of our portfolio has declined from December 31, 2013. Adversely classified loans increased to 1.4% of the portfolio at March 31, 2014, from 1.0% of the portfolio at December 31, 2013. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2014, $295.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

The following table summarizes risk information (accruing loans include accrued interest receivable) (dollars in thousands):

As of:	**March 31 2014**	December 31 2013
Loans:		
Nonaccrual	**$23,879**	$22,649
Accruing restructured	**3,560**	3,541
Accruing loans 90 days or more past due	**37**	592
Total risk loans	**27,476**	26,782
Other property owned	**51**	15
Total risk assets	**$27,527**	$26,797
Risk loans as a percentage of total loans	**0.6%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.5%
Total delinquencies as a percentage of total loans	**0.7%**	0.4%

Our risk assets have not changed significantly from December 31, 2013 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at March 31, 2014 and 31.4% of our nonaccrual loans were current.

Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions.

The following table presents comparative allowance coverage of various loan categories:

Allowance as a percentage of:	**March 31 2014**	December 31 2013
Loans	**0.3%**	0.3%
Nonaccrual loans	**57.4%**	60.0%
Total risk loans	**49.9%**	50.7%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2014.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2014 totaled $18.6 million compared to $20.4 million for the same period in 2013. The following table illustrates profitability information:

For the three months ended March 31	**2014**	2013
Return on average assets	**1.6%**	1.8%
Return on average members' equity	**8.8%**	10.7%

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Capital section.

The following table summarizes the changes in components of net income (in thousands):

For the three months ended March 31	2014	2013	Increase (decrease) in net income
Net interest income	**$27,587**	$26,990	**$597**
Provision for loan losses	**353**	442	**89**
Patronage income	**5,605**	4,816	**789**
Other income	**1,488**	3,487	**(1,999)**
Operating expenses	**13,675**	13,242	**(433)**
Provision for income taxes	**2,004**	1,183	**(821)**
Net income	**$18,648**	$20,426	**($1,778)**

Net interest income was $27.6 million for the three months ended March 31, 2014. The following table quantifies changes in net interest income for the three months ended March 31, 2014 compared to the same period in 2013 (in thousands):

	2014 vs 2013
Changes in volume	**$2,808**
Changes in rates	**(2,324)**
Changes in nonaccrual income and other	**113**
Net change	**$597**

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher average balance on our note payable and a higher patronage rate compared to the prior year. In addition, increased patronage income was received on loans in the AgriBank Asset Pool Program, which was due to a higher patronage rate compared to the prior year.

The change in other income was primarily related to decreased fee income.

The change in provision for income taxes was primarily related to increased income on our taxable entity.

FUNDING, LIQUIDITY AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures November 30, 2014, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit and, if applicable, a risk premium component. However, we were not subject to a risk premium at March 31, 2014 or December 31, 2013.

Total members' equity increased $16.4 million from December 31, 2013 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration (FCA) regulations require us to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0% and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2013 Annual Report for a more complete description of these ratios. As of March 31, 2014, the ratios were as follows:

- The permanent capital ratio was 15.3%.
- The total surplus ratio was 15.1%.
- The core surplus ratio was 15.1%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

RELATIONSHIP WITH AGRIBANK

We are required to invest in AgriBank capital stock as a condition of borrowing. On March 5, 2014, the AgriBank Board of Directors approved an amendment to the AgriBank capital plan which reduced the base required stock investment for all affiliated associations, including 1st Farm Credit Services, ACA from 2.5% to 2.25% effective March 31, 2014.

RELATIONSHIP WITH OTHER FARM CREDIT INSTITUTIONS

In January 2014 we entered into an agreement with Farm Credit Leasing (FCL), a System entity specializing in leasing products and providing industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. Additionally, on January 2, 2014 we sold $31.9 million of lease volume to FCL. We simultaneously purchased approximately a 50% interest in the cash flows of the leases sold. This sale resulted in a gain of $322 thousand. This arrangement provides our members with a broader selection of product offerings and enhanced lease expertise.

ADDITIONAL REGULATORY INFORMATION

On March 13, 2014, the FCA Board approved an interim final rule to remove all requirements related to advisory votes at Farm Credit institutions. Upon its effective date, advisory votes on CEO and/or senior officer compensation will no longer be required.

CERTIFICATION

The undersigned certify they have reviewed 1st Farm Credit Services, ACA's March 31, 2014 Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of our knowledge and belief.

Jeffrey Austman
Chairperson of the Board
1st Farm Credit Services, ACA

Gary J. Ash
President and Chief Executive Officer
1st Farm Credit Services, ACA

James F. Garvin
Chief Financial Officer
1st Farm Credit Services, ACA

May 2, 2014

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA

(in thousands)

(Unaudited)

As of:	**March 31 2014**	December 31 2013
ASSETS		
Loans	**$4,366,869**	$4,466,958
Allowance for loan losses	**13,702**	13,587
Net loans	**4,353,167**	4,453,371
Investment in AgriBank, FCB	**121,035**	133,456
Investment securities	**202,670**	218,796
Accrued interest receivable	**35,800**	37,902
Premises and equipment, net	**27,165**	26,375
Other property owned	**51**	15
Assets held for lease, net	**--**	24,524
Other assets	**13,221**	14,343
Total assets	**$4,753,109**	$4,908,782
LIABILITIES		
Note payable to AgriBank, FCB	**$3,876,890**	$4,036,821
Accrued interest payable	**12,874**	12,791
Patronage distribution payable	**2,200**	8,600
Other liabilities	**11,858**	17,706
Total liabilities	**3,903,822**	4,075,918
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**9**	9
Capital stock and participation certificates	**9,889**	9,900
Unallocated surplus	**839,389**	822,955
Total members' equity	**849,287**	832,864
Total liabilities and members' equity	**$4,753,109**	$4,908,782

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA

(in thousands)

(Unaudited)

For the three months ended March 31	**2014**	2013
Interest income	**$40,461**	$38,477
Interest expense	**12,874**	11,487
Net interest income	**27,587**	26,990
Provision for loan losses	**353**	442
Net interest income after provision for loan losses	**27,234**	26,548
Other income		
Patronage income	**5,605**	4,816
Financially related services income	**313**	416
Fee income	**707**	2,486
Miscellaneous income, net	**468**	585
Total other income	**7,093**	8,303
Operating expenses		
Salaries and employee benefits	**9,025**	8,793
Other operating expenses	**4,650**	4,449
Total operating expenses	**13,675**	13,242
Income before income taxes	**20,652**	21,609
Provision for income taxes	**2,004**	1,183
Net income	**$18,648**	$20,426

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

1st Farm Credit Services, ACA

(in thousands)

(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2012	$12	$9,694	$742,435	$752,141
Net income	--	--	20,426	20,426
Unallocated surplus designated for patronage distributions	--	--	(2,182)	(2,182)
Capital stock and participation certificates issued	--	266	--	266
Capital stock and participation certificates retired	--	(263)	--	(263)
Balance at March 31, 2013	$12	$9,697	$760,679	$770,388
Balance at December 31, 2013	$9	$9,900	$822,955	$832,864
Net income	**--**	**--**	**18,648**	**18,648**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(2,214)**	**(2,214)**
Capital stock and participation certificates issued	**--**	**214**	**--**	**214**
Capital stock and participation certificates retired	**--**	**(225)**	**--**	**(225)**
Balance at March 31, 2014	**$9**	**$9,889**	**$839,389**	**$849,287**

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the year ended December 31, 2014. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2013 Annual Report for the year ended December 31, 2013.

The consolidated financial statements present the consolidated financial results of 1st Farm Credit Services, ACA (the parent) and 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our consolidated financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**March 31, 2014**		December 31, 2013	
	Amount	%	Amount	%
Real estate	**$2,384,183**	**54.6%**	$2,387,321	53.4%
Commercial	**1,709,459**	**39.1%**	1,807,075	40.5%
Other	**273,227**	**6.3%**	272,562	6.1%
Total	**$4,366,869**	**100.0%**	$4,466,958	100.0%

The Other category is comprised of purchased government guaranteed loans and bonds originated under our mission related investment authority as well as communication and energy related loans.

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
As of March 31, 2014						
Real estate	**$4,162**	**$1,969**	**$6,131**	**$2,398,545**	**$2,404,676**	**$ --**
Commercial	**12,120**	**9,073**	**21,193**	**1,702,091**	**1,723,284**	**37**
Other	**3,737**	**2**	**3,739**	**270,180**	**273,919**	**--**
Total	**$20,019**	**$11,044**	**$31,063**	**$4,370,816**	**$4,401,879**	**$37**
As of December 31, 2013						
Real estate	$1,393	$1,956	$3,349	$2,401,885	$2,405,234	$456
Commercial	2,614	9,594	12,208	1,812,416	1,824,624	--
Other	1,316	175	1,491	271,747	273,238	136
Total	$5,323	$11,725	$17,048	$4,486,048	$4,503,096	$592

Risk Loans

The following table presents risk loan information (accruing loans include accrued interest receivable) (in thousands):

As of:	March 31 2014	December 31 2013
Volume with specific reserves	**$12,326**	$12,534
Volume without specific reserves	**15,150**	14,248
Total risk loans	**$27,476**	$26,782
Total specific reserves	**$4,777**	$4,991

For the three months ended March 31	2014	2013
Income on accrual risk loans	**$58**	$10
Income on nonaccrual loans	**365**	252
Total income on risk loans	**$423**	$262
Average risk loans	**$26,829**	$28,533

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no troubled debt restructurings that occurred during the three months ended March 31, 2014. We completed troubled debt restructurings of certain commercial loans during the three months ended March 31, 2013. Our recorded investment in these loans just prior to restructuring was $857 thousand for the three months ended March 31, 2013. Our recorded investment in these loans immediately following the restructuring was $857 thousand for the three months ended March 31, 2013. The recorded investment of the loan is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct charge-off of the investment.

There were no troubled debt restructurings that defaulted during the three months ended March 31, 2014 or 2013 in which the modification was within twelve months of the respective reporting period.

The following table presents information regarding troubled debt restructurings outstanding (in thousands):

As of:	March 31 2014	December 31 2013
Troubled debt restructurings in accrual status	**$3,560**	$3,541
Troubled debt restructurings in nonaccrual status	**11,062**	11,494
Troubled debt restructurings	**$14,622**	$15,035

Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $12 thousand at March 31, 2014.

Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

Three months ended March 31	2014	2013
Balance at beginning of year	**$13,587**	$9,365
Provision for loan losses	**353**	442
Loan recoveries	**6**	6
Loan charge-offs	**(244)**	(232)
Balance at end of period	**$13,702**	$9,581

The increase in allowance for loan losses was largely a result of a provision expense recorded in the fourth quarter of 2013 to account for our estimated exposure to historically high farmland values.

NOTE 3: INVESTMENT IN AGRIBANK, FCB

As of March 31, 2014, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Previously, the required investment was equal to 2.5%.

The balance of our investment in AgriBank, all required stock, was $121.0 million at March 31, 2014 and $133.5 million at December 31, 2013.

NOTE 4: INVESTMENT SECURITIES

We held investment securities of $202.7 million at March 31, 2014 and $218.8 million at December 31, 2013. Our investment securities consisted of loans guaranteed by the Small Business Administration. The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents further information on investment securities (dollars in thousands):

As of:	**March 31 2014**	December 31 2013
Amortized cost	**$202,670**	$218,796
Unrealized gains	**5,043**	5,726
Unrealized losses	**(396)**	(610)
Fair value	**$207,317**	$223,912

NOTE 5: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2013 Annual Report for a more complete description of the three input levels.

Non-Recurring Basis

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2014 or December 31, 2013. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
As of March 31, 2014					
Loans	**$ --**	**$126**	**$7,800**	**$7,926**	**($30)**
Other property owned	**--**	**--**	**53**	**53**	**6**
As of December 31, 2013					
Loans	$ --	$154	$7,765	$7,919	($2,369)
Other property owned	--	--	16	16	667

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 2, 2014, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.