1st Farm Credit Services, ACA

Quarterly Report
June 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position 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 2012 Annual Report for the year ended December 31, 2012.

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 agribankmn@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are 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 2012 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

Throughout most of May, excessive rains led to slow emergence and flooding in some areas of our territory, which led to replanting and planting progress below-average statistics. Wheat harvest has been affected the most and is well behind schedule compared to complete numbers from last year and down 22% from the five-year average. Weather conditions since then have turned for the better and are considered normal for this time of the growing season. Crop condition reports for the week ending June 30, 2013 rated 69% of the corn crop good to excellent, which compared to the drought-effected 37% from last year. Corn prices in Central Illinois at June 28, 2013 were $6.98 per bushel, up 30 cents per bushel compared to one year ago, but down 11 cents per bushel from last quarter.

Soybeans in Illinois have not quite been fully planted, falling 3% below last year's fully planted number, yet slightly ahead of the five-year average. Soybeans emergence is slightly ahead of the five-year average as well. Crop condition reports for the week ending June 30, 2013 rated 72% of the soybean crop good to excellent. Soybean prices for the same period were $15.66 per bushel, up 66 cents per bushel from a year ago, and up $1.46 from last quarter.

Soil moisture in Illinois has recovered from the drought conditions in the summer of 2012. Conditions for the end of June showed statewide subsoil as 80% adequate and 19% surplus, topsoil as 72% adequate and 27% surplus. Only a fraction of the state has short supplies of soil moisture.

According to the June 1, 2013 Hogs and Pigs Report, in the United States the number of hogs and pigs was down slightly from a year ago, but up 2% from March 1, 2013. Illinois turned out to be better than the nation's average with a 1% growth from a year ago in the number of hogs and pigs and have a 2% growth in inventory from March 1, 2013. Farrowing intentions for the June through August quarter are 255 thousand, up 5 thousand from a year ago. Market anticipation of lower feed costs due to reduced corn and soybean meal prices, could provide an extended period of profitability for pork producers.

Loan Portfolio

Loans totaled $4.0 billion at June 30, 2013, a $54.8 million decrease from December 31, 2012. This decrease was primarily due to reduced operating loan balances for our grain producers. Higher prices for grain sales, along with many producers receiving crop insurance indemnity payments, increased repayment in early 2013. This decline has been partially offset by continued strong real estate loan growth.

Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2012. Adversely classified loans decreased to 1.3% of the portfolio at June 30, 2013, from 1.5% of the portfolio at December 31, 2012. 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, we use government guarantee programs to reduce the risk of loss. At June 30, 2013, $272.6 million of our loans were, to some level, guaranteed under these governmental programs.

Risk Assets

The following table summarizes risk assets including accrued interest receivable and delinquency information (dollars in thousands):

As of:	**June 30 2013**	December 31 2012
Loans:		
Nonaccrual	**$ 26,873**	$ 27,621
Accruing restructured	**549**	665
Accruing loans 90 days or more past due	**1,109**	--
Total risk loans	**28,531**	28,286
Other property owned	**15**	--
Total risk assets	**$ 28,546**	$ 28,286
Risk loans as a percentage of total loans	**0.7%**	0.7%
Total delinquencies as a percentage of total loans	**1.2%**	0.8%

Our risk assets have not changed significantly from December 31, 2012 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 June 30, 2013 and represented 0.7% of our total portfolio. At June 30, 2013, 52.4% 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 severity of loss given default, portfolio quality and current economic and environmental conditions.

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

Allowance as a percentage of:	**June 30 2013**	December 31 2012
Loans	**0.2%**	0.2%
Nonaccrual loans	**33.5%**	33.9%
Total risk loans	**31.6%**	33.1%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2013.

Results of Operations

Net income for the six months ended June 30, 2013 totaled $41.6 million compared to $44.5 million for the same period in 2012. The following table illustrates profitability information:

As of June 30	**2013**	2012
Return on average assets	**1.9%**	2.3%
Return on average members' equity	**10.8%**	13.0%

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

For the six months ended June 30	2013	2012	Increase (decrease) in net income
Net interest income	$ 53,601	$ 49,532	$ 4,069
Reversal of loan loss provision	(106)	(377)	(271)
Patronage income	10,456	11,802	(1,346)
Other income	4,978	7,194	(2,216)
Operating expenses	26,141	23,067	(3,074)
Provision for income taxes	1,392	1,295	(97)
Net income	$ 41,608	$ 44,543	$ (2,935)

Net interest income was $53.6 million for the six months ended June 30, 2013. The following table quantifies changes in net interest income for the six months ended June 30, 2013 compared to the same period in 2012 (in thousands):

	2013 vs 2012
Changes in volume	$ 8,416
Changes in rates	(3,613)
Changes in nonaccrual income and other	(734)
Net change	$ 4,069

The change in patronage income was primarily related to a decrease in patronage income received on our sale of a participation interest in certain real estate loans to AgriBank. Patronage income on our sale of a participation interest in certain real estate loans to AgriBank primarily decreased due to the share of distributions from Allocated Insurance Reserve Accounts (AIRA) totaling $689 thousand received in 2012. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund above the required 2% of insured debt. There has been no distribution in 2013. This was partially offset by an increase in patronage received from AgriBank due to a higher patronage rate compared to the prior year.

The change in other income was primarily due to our share of non-recurring distributions from AIRA of $3.5 million in 2012, which was partially offset by increased fee income.

The change in operating expenses was primarily related to increases in farm credit system insurance, salaries and employee benefits expenses.

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.

Funding, Liquidity and Capital

We borrow from AgriBank, under a note payable, in the form of a line of credit. 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 include a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity and bank profit and a risk premium component, if applicable. We were not subject to the risk premium component at June 30, 2013 or December 31, 2012.

Total members' equity increased $37.3 million from December 31, 2012 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration 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 2012 Annual Report for a more complete description of these ratios. As of June 30, 2013, the ratios were as follows:

- The permanent capital ratio was 15.3%.
- The total surplus ratio was 15.0%.
- The core surplus ratio was 15.0%.

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.

Certification

The undersigned certify they have reviewed 1st Farm Credit Services, ACA's June 30, 2013 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.

Steve Cowser
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

August 5, 2013

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA

(in thousands)
(Unaudited)

	June 30 2013	December 31 2012
ASSETS		
Loans	**$ 4,040,644**	$ 4,095,401
Allowance for loan losses	**9,014**	9,365
Net loans	**4,031,630**	4,086,036
Investment in AgriBank, FCB	**126,659**	129,951
Investment securities	**245,086**	268,638
Accrued interest receivable	**37,966**	34,814
Premises and equipment, net	**22,548**	20,149
Other property owned	**15**	--
Assets held for lease, net	**20,550**	17,859
Other assets	**10,673**	15,001
Total assets	**$ 4,495,127**	$ 4,572,448
LIABILITIES		
Note payable to AgriBank, FCB	**$ 3,677,515**	$ 3,785,178
Accrued interest payable	**11,596**	11,570
Patronage distribution payable	**4,300**	8,400
Other liabilities	**12,251**	15,159
Total liabilities	**3,705,662**	3,820,307
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**9**	12
Capital stock and participation certificates	**9,745**	9,694
Unallocated surplus	**779,711**	742,435
Total members' equity	**789,465**	752,141
Total liabilities and members' equity	**$ 4,495,127**	$ 4,572,448

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA

(in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2013**	2012	**2013**	2012
Interest income	**$ 38,207**	$ 36,296	**$ 76,684**	$ 72,565
Interest expense	**11,596**	11,426	**23,083**	23,033
Net interest income	**26,611**	24,870	**53,601**	49,532
Reversal of loan loss provision	**(548)**	(386)	**(106)**	(377)
Net interest income after reversal of loan loss provision	**27,159**	25,256	**53,707**	49,909
Other income				
Patronage income	**5,640**	6,259	**10,456**	11,802
Financially related services income	**355**	403	**771**	762
Fee income	**844**	1,031	**3,330**	2,168
Allocated insurance reserve accounts distribution	**--**	3,464	**--**	3,464
Miscellaneous income, net	**292**	383	**877**	800
Total other income	**7,131**	11,540	**15,434**	18,996
Operating expenses				
Salaries and employee benefits	**8,330**	7,847	**17,123**	15,312
Other operating expenses	**4,569**	3,924	**9,018**	7,755
Total operating expenses	**12,899**	11,771	**26,141**	23,067
Income before income taxes	**21,391**	25,025	**43,000**	45,838
Provision for income taxes	**209**	927	**1,392**	1,295
Net income	**$ 21,182**	$ 24,098	**$ 41,608**	$ 44,543

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, 2011	$	16	$	9,189	$	656,577	$	665,782
Net income		--		--		44,543		44,543
Unallocated surplus designated for patronage distributions		--		--		(4,217)		(4,217)
Capital stock/participation certificates issued		--		603		--		603
Capital stock/participation certificates retired		(4)		(336)		--		(340)
Balance at June 30, 2012	$	12	$	9,456	$	696,903	$	706,371
Balance at December 31, 2012	$	12	$	9,694	$	742,435	$	752,141
Net income		**--**		**--**		**41,608**		**41,608**
Unallocated surplus designated for patronage distributions		**--**		**--**		**(4,332)**		**(4,332)**
Capital stock/participation certificates issued		**--**		**522**		**--**		**522**
Capital stock/participation certificates retired		**(3)**		**(471)**		**--**		**(474)**
Balance at June 30, 2013	**$**	**9**	**$**	**9,745**	**$**	**779,711**	**$**	**789,465**

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 six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013. 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 2012 Annual Report for the year ended December 31, 2012.

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:		**June 30, 2013**			December 31, 2012	
		Amount	%		Amount	%
Real estate	**$**	**2,224,261**	**55.0%**	$	2,154,458	52.6%
Commercial		**1,578,606**	**39.1%**		1,744,527	42.6%
Other		**237,777**	**5.9%**		196,416	4.8%
Total	**$**	**4,040,644**	**100.0%**	$	4,095,401	100.0%

The other category is comprised of communication and energy related loans, finance leases as well as bonds originated under our Mission Related Investment authority.

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 June 30, 2013						
Real estate	**$ 1,984**	**$ 3,592**	**$ 5,576**	**$ 2,239,327**	**$ 2,244,903**	**$ --**
Commercial	**1,252**	**8,911**	**10,163**	**1,583,191**	**1,593,354**	**4**
Other	**32,719**	**1,159**	**33,878**	**204,699**	**238,577**	**1,105**
Total	**$ 35,955**	**$ 13,662**	**$ 49,617**	**$ 4,027,217**	**$ 4,076,834**	**$ 1,109**
As of December 31, 2012						
Real estate	$ 2,440	$ 4,616	$ 7,056	$ 2,163,507	$ 2,170,563	$ --
Commercial	1,266	13,451	14,717	1,746,183	1,760,900	--
Other	12,565	64	12,629	184,339	196,968	--
Total	$ 16,271	$ 18,131	$ 34,402	$ 4,094,029	$ 4,128,431	$ --

Risk Loans

The following table presents risk loan information (in thousands):

As of:		June 30 2013		December 31 2012
Volume with specific reserves	**$**	**12,768**	$	12,751
Volume without specific reserves		**15,763**		15,535
Total risk loans	**$**	**28,531**	$	28,286
Total specific reserves	**$**	**4,138**	$	3,931
For the six months ended June 30		**2013**		2012
Income on accrual risk loans	**$**	**23**	$	16
Income on nonaccrual loans		**328**		1,062
Total income on risk loans	**$**	**351**	$	1,078
Average risk loans	**$**	**28,417**	$	28,528

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 formally restructured. 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 formally restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding troubled debt restructurings that occurred during the six months ended June 30 (in thousands):

	2013				2012			
		Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment		Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment
Real estate	**$**	**36**	**$**	**36**	$	--	$	--
Commercial		**1,206**		**1,206**		1,818		1,827
Total	**$**	**1,242**	**$**	**1,242**	$	1,818	$	1,827

Pre-modification outstanding represents the recorded investment just prior to restructuring and post-modification outstanding represents the recorded investment immediately following the restructuring. The recorded investment 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 six months ended June 30, 2013 in which the modification was within twelve months of the beginning of the respective reporting period. Our real estate loans had $66 thousand and our commercial loans had $128 thousand of troubled debt restructurings that defaulted during the six months ended June 30, 2012 in which the modifications were within twelve months of the respective reporting period.

Troubled debt restructurings outstanding at June 30, 2013 totaled $14.6 million, of which $14.1 million were in nonaccrual status compared to $14.5 million at December 31, 2012 of which $13.8 million were in nonaccrual status. Troubled debt restructuring increased slightly due to restructuring activity during the six months ended June 30, 2013, but were substantially offset by payments received on restructured loans. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $44 thousand at June 30, 2013.

Allowance for Loan Losses

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

Six months ended June 30		2013		2012
Balance at beginning of year	**$**	**9,365**	$	10,949
Reversal of loan loss provision		**(106)**		(377)
Loan recoveries		**13**		34
Loan charge-offs		**(258)**		(3,112)
Balance at end of period	**$**	**9,014**	$	7,494

NOTE 3: Investment Securities

We held investment securities of $245.1 million at June 30, 2013 and $268.6 million at December 31, 2012. Our investment securities consisted of loans guaranteed by the Small Business Administration. These 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:	**June 30 2013**	December 31 2012
Amortized cost	**$ 245,086**	$ 268,638
Unrealized gains	**6,527**	5,419
Unrealized losses	**(238)**	(508)
Fair value	**$ 251,375**	$ 273,549
Weighted average yield	**1.3%**	1.2%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled $1.7 million and $1.8 million for the six months ended June 30, 2013 and 2012, respectively.

The following table presents contractual maturities of our investment securities (in thousands):

As of June 30, 2013	Amortized Cost
Less than one year	**$ 31**
One to five years	**28,162**
Five to ten years	**107,474**
More than ten years	**109,419**
Total	**$ 245,086**

NOTE 4: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding, 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.

From time to time, we may be named as a defendant in certain 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 5: Fair Value Measurements

The accounting guidance defines fair value 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. The 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 2012 Annual Report for a more complete description of the three input levels.

We do not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2013 or December 31, 2012. 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 June 30, 2013					
Loans	**$ --**	**$ 576**	**$ 8,485**	**$ 9,061**	**$ (465)**
Other property owned	**--**	**--**	**16**	**16**	**--**
As of December 31, 2012					
Loans	$ --	$ 555	$ 8,705	$ 9,260	$ (958)
Other property owned	--	--	--	--	3

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.

The fair value measurement would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under Level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

NOTE 6: Subsequent Events

We have evaluated subsequent events through August 5, 2013, 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.