1ST FARM CREDIT SERVICES®

YOUR FIRST CHOICE

2013 Annual Report

TABLE OF CONTENTS

1st Farm Credit Services, ACA

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 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.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

2013 – Well Positioned for the Future

2013 marks another year of strong net farm income for our clients and continued strong results for 1st Farm Credit Services.

Grain operations weathered the short crop in 2012 with higher grain prices and crop insurance. In 2013, crops were average to slightly above average, but farmers saw significant price declines in the fall. Livestock operations had to, again, deal with high feed costs for most of 2013. However, they were helped some by higher prices received for their livestock and livestock products and declines in feed costs late in the year. Many swine operations began dealing with porcine epidemic diarrhea virus (PEDv) in their herds. Our horticulture clients continue to be adversely impacted by a slow recovery of the general economy. Land values moved to record highs for most farm ground, and we continued to see interest rates remain at all-time lows.

This level of volatility is here to stay. Fortunately, we continue to see most operations manage this volatility extremely well. Farmers have focused on strengthening balance sheets, liquidity positions and keeping overall debt at levels that can be serviced, even with a drop in net income.

In 2013, 1st Farm Credit Services continued to grow its loan portfolio and financial services, while generating strong net earnings and building a stronger capital position. Our loan portfolio quality improved to an even stronger position. And for the eighth year in a row, the Board of Directors approved an increase in our Patronage Program.

Serving a greater share of the agriculture marketplace is always a goal of ours and in 2013 we continued to do so with the more than 9 percent growth on average daily balance of loans, leases and investments owned and managed. We also saw our net acres insured for multi-peril crop insurance increase by more than 14 percent. We completed more than 1,500 fee real estate appraisals for clients and began offering title insurance in several branch offices. We are continuing to look at opportunities to bring more value through an expanded – and improved – offering of financial products.

As we remained focused on serving more of the market, we remain vigilant to building financial strength in your Association. We strive to remain profitable, manage our cost of operations and retain sufficient earnings to build our capital position for the future. Our 2013 net earnings of more than $89 million is our second highest earnings to date, and our operating cost rate is one of the lowest in the Farm Credit System. We increased our capital ratio from 14.94 percent to 15.21 percent. At the end of the year, your Association had total capital exceeding $832 million. The quality of our loan portfolio is the strongest it has been since 2007, with only 1.0 percent being classified adverse.

Patronage was first paid to eligible stockholders eight years ago. Since then, our patronage has increased annually and $8.6 million will be paid in early 2014 from 2013 earnings. In total, your Association has returned $47 million in patronage to its patronage eligible stockholders since the program's inception in 2006.

As we look to the future, we take pride in the financial success our clients have experienced, and in the financial success 1st Farm Credit Services has achieved. Agriculture does experience cycles. At some point in the not too distant future, the up-cycle we have enjoyed will change and we will have to weather a down-cycle. The record high net farm income levels for grain producers are projected to decline, and when they do, we are concerned that today's farmland prices will not be sustainable. Tighter repayment margins will put pressure on farmers' liquidity positions. Fortunately, if the cycle changes in the near term, our borrowers are well-positioned for it. Many have been taking advantage of the lower, long-term interest rates to lock in a significant portion of their debt. So, when interest rates increase, these clients have locked in their cost of borrowing for years into the future.

The farmers and Ag-businesses in central and northern Illinois are in good position for whatever the future holds. 1st Farm Credit Services is committed to our clients and to being a dependable, financial source – serving agriculture through all its business cycles. We continually strive to remain "Your First Choice."

Sincerely,

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

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

March 3, 2014

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

1st Farm Credit Services, ACA

(Dollars in thousands)

	2013	2012	2011	2010	2009
Statement of Condition Data					
Loans	**$4,466,958**	$4,095,401	$3,381,073	$3,210,793	$2,696,336
Allowance for loan losses	**13,587**	9,365	10,949	13,314	11,046
Net loans	**4,453,371**	4,086,036	3,370,124	3,197,479	2,685,290
Investment in AgriBank, FCB	**133,456**	129,951	121,828	110,657	104,574
Investment securities	**218,796**	268,638	274,513	210,008	202,173
Other property owned	**15**	--	48	--	961
Other assets	**103,144**	87,823	79,685	77,472	69,949
Total assets	**$4,908,782**	$4,572,448	$3,846,198	$3,595,616	$3,062,947
Obligations with maturities of one year or less	**$4,075,918**	$3,820,307	$3,180,416	$3,007,600	$34,378
Obligations with maturities greater than one year	**--**	--	--	--	2,513,628
Total liabilities	**4,075,918**	3,820,307	3,180,416	3,007,600	2,548,006
Protected members' equity	**9**	12	16	17	28
Capital stock and participation certificates	**9,900**	9,694	9,189	8,665	8,036
Unallocated surplus	**822,955**	742,435	656,577	579,334	506,877
Total members' equity	**832,864**	752,141	665,782	588,016	514,941
Total liabilities and members' equity	**$4,908,782**	$4,572,448	$3,846,198	$3,595,616	$3,062,947
Statement of Income Data					
Net interest income	**$109,237**	$100,677	$97,205	$84,838	$68,593
Provision for loan losses	**5,477**	1,463	746	2,863	6,945
Patronage income	**24,647**	25,344	23,531	24,049	18,747
Other expense, net	**36,778**	28,514	30,196	23,333	28,175
Provision for income taxes	**2,477**	1,769	4,356	2,216	35
Net income	**$89,152**	$94,275	$85,438	$80,475	$52,185
Key Financial Ratios					
Return on average assets	**2.0%**	2.4%	2.3%	2.5%	1.9%
Return on average members' equity	**11.2%**	13.3%	13.7%	14.7%	10.7%
Net interest income as a percentage of average earning assets	**2.5%**	2.6%	2.8%	2.8%	2.6%
Members' equity as a percentage of total assets	**17.0%**	16.4%	17.3%	16.4%	16.8%
Net charge-offs as a percentage of average loans	**--**	0.1%	0.1%	--	0.1%
Allowance for loan losses as a percentage of loans	**0.3%**	0.2%	0.3%	0.4%	0.4%
Permanent capital ratio	**15.2%**	14.9%	15.0%	14.1%	14.0%
Total surplus ratio	**15.0%**	14.7%	14.7%	13.8%	13.7%
Core surplus ratio	**15.0%**	14.7%	14.7%	13.8%	13.7%
Other					
Loans serviced for AgriBank, FCB	**$855**	$1,425	$1,703	$2,745	$2,988
Patronage distribution payable to members	**$8,600**	$8,400	$8,200	$8,000	$3,800
Asset pool loans serviced for AgriBank, FCB	**$433,470**	$501,065	$585,222	$501,389	$559,351

The patronage distribution to members accrued for the year ended December 31, 2013 is distributed in cash during the first quarter of 2014. The patronage distributions accrued for the years ended December 31, 2012, 2011, 2010 and 2009 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock or allocated surplus during these periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1st Farm Credit Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of 1st Farm Credit Services, ACA (the Association) and its subsidiaries, 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (the subsidiaries) and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of December 31, 2013, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB) and 82 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C. and Puerto Rico. This network of financial cooperatives is owned and operated by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). 1st Farm Credit Services, ACA is one of the affiliated associations in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

FORWARD-LOOKING INFORMATION

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend" and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial and economic conditions and developments in the United States (U.S.) and abroad,
- economic fluctuations in the agricultural and farm-related business sectors,
- unfavorable weather, disease and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises and other financial institutions,
- actions taken by the Federal Reserve System in implementing monetary policy,
- credit, interest rate and liquidity risks inherent in our lending activities and
- changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment and fair value measurements.

AGRICULTURAL AND ECONOMIC CONDITIONS

The 2013 growing season was another year filled with weather related challenges. Fortunately, production rebounded sharply from the drought related stress of 2012. Winter rains that helped replenish soil conditions continued into spring and delayed corn planting compared to the five year average planting progress. Unusually cool weather continued through May as well. The wet conditions led to slow emergence and flooding, causing replanting in some areas. Conditions in June were more ideal and the corn crop responded favorably. Soybean planting was well behind the five year average planting progress through much of June. Mid to late summer turned very dry and a large portion of our territory was classified as moderate drought going into harvest. Harvest progress was spotty due to rainfall and colder than normal conditions that slowed crop drying in the field. Final yields were better than anticipated. The August and September crop reports predicted 165 bushels per acre for corn, the August crop report predicted 47 bushels per acre for soybeans and the September crop report predicted 46 bushels per acre for soybeans. Final Illinois corn yield averaged 178 bushels per acre, well above the 105 bushels per acre in 2012. Final Illinois soybean yield averaged 49 bushels per acre, above the 43 bushels per acre in 2012. Grain prices generally trended lower through the year as it became apparent production would provide some restoration to the low stocks caused by the short crop of the previous growing season. Corn prices steadily declined from just over $7 per bushel in early 2013 to near $4 per bushel by year end. Soybean prices experienced a summer rally due to planting delays which extended concerns about an extremely low stocks position coming out of the 2012 crop. Absent the summer rally, soybean prices remained fairly steady at $13 to $14 per bushel. Crop input costs were steady to slightly lower in 2013 due to a large decrease in fertilizer expenses, offset by continued increases in seed and pesticide expense. Costs are expected to decrease further in 2014 based on continued reductions in fertilizer prices. Net farm income for 2013 is forecast well above 2012 and is expected to be the highest since 1973. Income is expected to decline in 2014 as normal yields and replenished grain stocks result in lower prices for corn and soybeans compared to the past few years.

Illinois livestock producers entered 2013 with high feed costs due to the 2012 drought. Most producers were challenged to remain profitable even with risk management strategies. As grain prices moderated throughout 2013 the profit outlook improved substantially. High feed prices of the past few years have stalled expansion plans of many producers. Hog producers have held the sow herd steady and recent United States Department of Agriculture reports predict only modest increases in response to lower grain prices. The beef herd liquidation is slowing, yet beef supplies will be tight and cash prices historically high well into the future. Exports remain strong for beef and pork, boosting cash and futures prices. Average corn and soybean crops in South America and the U.S. will continue to build stocks, lowering feed costs and improving the profitability outlook of the beef and pork sector. Dairy producers will recover from recent losses as feed costs subside and milk prices remain at favorable levels.

Agricultural real estate values increased throughout the territory in 2013. While valuation increases were not as strong as 2011 or 2012, the increase continued to be near historical averages. Profitability in the grain sector from high corn and soybean prices continued to fuel demand. Demand continues to exceed supply, particularly for high quality farmland. Valuation increases are slowing, likely in response to reduced grain prices and expectations of reduced net income. Agricultural land rental rates increased in 2013 and are expected to remain steady in 2014. Farm sector debt remains very low, equity is at historical levels and the financial condition of the farm sector remains strong.

LOAN PORTFOLIO

Total loans were $4.5 billion at December 31, 2013, an increase of $371.6 million from December 31, 2012. The components of loans are presented in the following table (in thousands):

As of December 31	**2013**	2012	2011
Accrual loans:			
Real estate	**$2,381,213**	$2,144,049	$1,712,097
Commercial	**1,790,769**	1,727,378	1,517,084
Other	**272,327**	196,353	120,483
Nonaccrual loans	**22,649**	27,621	31,409
Total loans	**$4,466,958**	$4,095,401	$3,381,073

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

The increase in total loans from December 31, 2012 was primarily a result of continued strong demand for real estate and continued growth in operating and equipment loans.

We offer variable and fixed interest rate loan and lease programs as well as capped, indexed and adjustable interest rate loan programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, cost of delivery, credit risk, market conditions and the need to generate sufficient earnings.

As part of the Asset Pool program, we have sold participation interests in real estate loans to AgriBank. The total participation interests in this program were $433.5 million, $501.1 million and $585.2 million at December 31, 2013, 2012 and 2011, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Illinois. No county comprised more than 5.0% of our total loan portfolio at December 31, 2013.

Agricultural concentrations exceeding 5.0% of our portfolio included: crops 61.9%, landlords 11.2%, livestock 8.3% and processing and marketing 6.4%. Additional commodity concentration information is included in Note 3.

The commercial loan portfolio has some seasonality and a strong correlation to grain input costs. These loans normally peak at year end and then decline until late spring as grain inventories are liquidated. Loan balances then increase throughout the summer and fall as farmers borrow for operating capital needs.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2013. Adversely classified loans decreased to 1.0% of the portfolio at December 31, 2013, from 1.5% of the portfolio at December 31, 2012. Adversely classified loans are loans with well defined credit weakness. 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. As of December 31, 2013, $289.8 million of our loans were, to some level, guaranteed under these government programs.

Beginning in 2012 we entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac), a System institution, to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac at the full length obligation of the note. This agreement remains in place until the loan is paid in full. The net investment of loans subject to the purchase agreement was $29.4 million and $13.4 million at December 31, 2013 and 2012, respectively. We paid Farmer Mac commitment fees totaling $201 thousand and $38 thousand in 2013 and 2012, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2013, no loans have been sold to Farmer Mac under this agreement.

Analysis of Risk

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

As of December 31	**2013**	2012	2011
Loans:			
Nonaccrual	**$22,649**	$27,621	$31,409
Accruing restructured	**3,541**	665	580
Accruing loans 90 days or more past due	**592**	--	--
Total risk loans	**26,782**	28,286	31,989
Other property owned	**15**	--	48
Total risk assets	**$26,797**	$28,286	$32,037
Risk loans as a percentage of total loans	**0.6%**	0.7%	0.9%
Total delinquencies as a percentage of total loans	**0.4%**	0.8%	0.6%

Our risk assets have decreased from December 31, 2012 and remain at acceptable levels. Total risk loans as a percentage of total loans remain well within our established risk management guidelines.

Nonaccrual loans remained at an acceptable level at December 31, 2013 and represented 0.5% of our total portfolio. At December 31, 2013, 47.5% 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.

Analysis of the 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 the 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 allowance coverage, charge-off and adverse asset information:

As of December 31	**2013**	2012	2011
Allowance as a percentage of:			
Loans	**0.3%**	0.2%	0.3%
Nonaccrual loans	**60.0%**	33.9%	34.9%
Total risk loans	**50.7%**	33.1%	34.2%
Net charge-offs as a percentage of average loans	**--**	0.1%	0.1%
Adverse assets to risk funds	**6.5%**	10.0%	11.7%

A large amount of the increase in our allowance for loan losses was due to an adjustment to record a portion of our estimated exposure to historically high farmland values. The adjustment is based on what we believe is a reasonable return to land owners over the long-term. The return is based on longer range grain prices and interest rate forecasts. We recorded an additional $4.3 million allowance for loan losses in the fourth quarter of 2013 to compensate for our farmland exposure. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2013.

Additional loan information is included in Notes 3, 11, 12, 13 and 14.

INVESTMENT SECURITIES

In addition to loans, we hold investment securities. Investments include our share of securities made up of loans guaranteed by the Small Business Administration. Investment securities totaled $218.8 million, $268.6 million and $274.5 million at December 31, 2013, 2012 and 2011, respectively.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Notes 5 and 14.

RESULTS OF OPERATIONS

The following table illustrates profitability information (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Net income	**$89,152**	$94,275	$85,438
Return on average assets	**2.0%**	2.4%	2.3%
Return on average members' equity	**11.2%**	13.3%	13.7%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets as discussed in the Loan Portfolio and Investment Securities sections and
- changes in members' equity as discussed in the Capital Adequacy section.

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

	For the year ended December 31			Increase (decrease) in net income	
	2013	2012	2011	**2013 vs 2012**	2012 vs 2011
Net interest income	**$109,237**	$100,677	$97,205	**$8,560**	$3,472
Provision for loan losses	**5,477**	1,463	746	**(4,014)**	(717)
Patronage income	**24,647**	25,344	23,531	**(697)**	1,813
Other income, net	**17,758**	20,252	15,821	**(2,494)**	4,431
Operating expenses	**54,536**	48,766	46,017	**(5,770)**	(2,749)
Provision for income taxes	**2,477**	1,769	4,356	**(708)**	2,587
Net income	**$89,152**	$94,275	$85,438	**($5,123)**	$8,837

Net Interest Income

Net interest income was $109.2 million for the year ended December 31, 2013. The following table quantifies changes in net interest income (in thousands):

	2013 vs 2012	2012 vs 2011
Changes in volume	**$15,170**	$9,893
Changes in rates	**(6,042)**	(6,384)
Changes in nonaccrual income and other	**(568)**	(37)
Net change	**$8,560**	$3,472

Net interest income included income on nonaccrual loans that totaled $641 thousand, $1.2 million and $1.2 million in 2013, 2012 and 2011, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected and prior charge-offs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 2.5%, 2.6% and 2.8% in 2013, 2012 and 2011, respectively. We expect margins to compress in the future as interest rates rise and competition increases.

Provision for Loan Losses

The fluctuation in the provision for loan losses is primarily due to a $4.3 million additional allowance for loan losses reserve being established during the fourth quarter of 2013 related to farmland values. See the Loan Portfolio section and Note 3 for additional discussion.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. The patronage rate was 34.5 basis points, 32.0 basis points and 31.0 basis points in 2013, 2012 and 2011, respectively. We recorded patronage income of $12.8 million, $10.5 million and $9.3 million in 2013, 2012 and 2011, respectively.

Since 2008, we have participated in the Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of $11.9 million, $14.9 million and $14.2 million in 2013, 2012 and 2011, respectively. As part of this income in 2012, we received a $689 thousand share of the distribution from the Allocated Insurance Reserve Accounts (AIRA) related to the Asset Pool program. These reserve accounts were established in previous years by the FCSIC when premiums collected increased the level of the Farm Credit Insurance Fund above the required 2.0% of insured debt. No such distributions were received in 2013 or 2011.

Other Income

The change in other income is 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.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Salaries and employee benefits	**$35,266**	$31,853	$30,193
Purchased and vendor services	**2,625**	2,668	2,080
Communications	**1,024**	870	844
Occupancy and equipment	**4,163**	3,983	3,806
Advertising and promotion	**1,856**	2,002	1,657
Examination	**935**	939	849
Farm Credit System insurance	**3,427**	1,510	1,713
Other	**5,240**	4,941	4,875
Total operating expenses	**$54,536**	$48,766	$46,017
Operating rate	**1.3%**	1.3%	1.3%

The operating expense increase was primarily due to the increases in salaries and benefits, incentives due to strong business growth, hiring additional employees and an increase in the rate for Farm Credit System insurance premiums.

Provision for Income Taxes

The variance in provision for income taxes is related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2013, 2012 and 2011. Refer to Note 9 for additional discussion.

FUNDING AND LIQUIDITY

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7.

The following table summarizes note payable information (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Average balance	**$3,699,719**	$3,273,530	$3,007,785
Average interest rate	**1.3%**	1.4%	1.6%

Our other source of lendable funds is from unallocated surplus. 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.

Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2013, we had $457.7 million available under our line of credit. We generally apply excess cash to this line of credit.

CAPITAL ADEQUACY

Total members’ equity increased $80.7 million during 2013 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Members' equity position information is as follows (dollars in thousands):

As of December 31	**2013**	2012	2011
Members' equity	**$832,864**	$752,141	$665,782
Surplus as a percentage of members' equity	**98.8%**	98.7%	98.6%
Permanent capital ratio	**15.2%**	14.9%	15.0%
Total surplus ratio	**15.0%**	14.7%	14.7%
Core surplus ratio	**15.0%**	14.7%	14.7%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2013, our permanent capital, total surplus and core surplus ratios exceeded the regulatory minimum requirements. Additional discussion of these regulatory ratios is included in Note 8.

In addition to these regulatory requirements, we establish an optimum permanent capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2013, our optimum permanent capital target range was 12% to 15%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

INITIATIVES

We are involved in a number of initiatives designed to improve our credit delivery, related services and marketplace presence.

ProPartners Financial

We have an alliance with nine other Farm Credit association partners to provide producer financing for agribusiness companies under the trade name, ProPartners Financial (ProPartners). ProPartners is directed by representatives from participating associations and has employees in California, Illinois, Indiana, Kansas, Minnesota, Missouri, North Dakota, Tennessee and Washington. The income, expense and loss sharing arrangements are based on each association's participation interest in ProPartners' volume. Each association's allocation is established according to a prescribed formula which includes risk funds of the associations. We had $98.0 million, $83.9 million and $87.1 million of ProPartners volume at December 31, 2013, 2012 and 2011, respectively. We also had $139.4 million of available commitment on ProPartners loans at December 31, 2013.

Equipment Financing

We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through dealer point-of-purchase financing programs.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

Agriculture and Rural Community Bond Program

We participate in the Agriculture and Rural Community (ARC) Bond Program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses and their rural communities and businesses. The ARC Bond Program is part of our mission related investments. These investments will help to increase rural communities and business well-being and prosperity by providing an adequate flow of capital into rural areas. We had $10.5 million, $10.8 million and $8.8 million of volume under this program at December 31, 2013, 2012 and 2011, respectively.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 7, governs this lending relationship.

Cost of funds under the GFA includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity and bank profit and if applicable, a risk premium component. However, in the periods presented, we were not subject to the risk premium component.

The marginal cost of debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from market interest rate risk.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2013, we were required to maintain a stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. However, AgriBank currently has not communicated a plan to increase the required investment.

In addition, we are required to hold AgriBank stock equal to 8.0% of the quarter end Asset Pool program participation loan balance.

At December 31, 2013, $46.0 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $87.4 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank,
- patronage based on the balance and net earnings of loans in the Asset Pool program and
- equalization income based on our excess stock or growth required stock investment in AgriBank.

Patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain financial and retail systems, support, reporting services, technology services, insurance services and internal audit services.

The total cost of services we purchased from AgriBank was $1.1 million in 2013, 2012 and 2011.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank and the combined AgriBank and Affiliated Associations' financial reports 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.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter.

RELATIONSHIP WITH OTHER FARM CREDIT INSTITUTIONS

Capital Markets Group

We participate in the Capital Markets Group with two other AgriBank District associations. The Capital Markets Group focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Loans purchased are accounted for by the respective associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides additional means for diversifying each participant's portfolio, helps reduce concentration risk and positions the participants for continued growth.

Federal Agricultural Mortgage Corporation

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Loan Portfolio section for further discussion of this agreement.

BGM Technology Collaboration

We participate in the BGM Technology Collaboration (BGM) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. BGM operations are governed by representatives of each participating association. The expenses of BGM are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

4 Rivers, LLP

We participate with other AgriBank District associations in 4 Rivers, LLP (the LLP), which functions as a negotiating and administrative arm for crop insurance business. The LLP negotiates commission and profit share terms with the Approved Insurance Providers (AIP). The value proposition is that the LLP covers a larger geographical area, has more premium volume and offers the AIP potential for a more stable and profitable return. Each participating association continues to conduct crop insurance business independently within its chartered territory, whereas the LLP is utilized for negotiating contract terms and facilitating the pooling of crop insurance business in a manner which optimizes the value received by the participating associations. As a part of this relationship, our investment in 4 Rivers, LLP was $13 thousand at December 31, 2013, 2012 and 2011.

Farm Credit Leasing

On January 2, 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. As part of the transaction, we recognized a gain of $322 thousand. This arrangement provides our members with a broader selection of product offerings and enhanced lease expertise.

Unincorporated Business Entities (UBEs)

Certain circumstances, primarily for legal liability purposes, may warrant the need to establish separate entities to acquire and manage complex collateral.

As of December 31, 2013, we had an insignificant equity investment in RBF Acquisition VIII, LLC which owns the assets of an ethanol plant acquired from a troubled borrower in 2009.

Investment in Other Farm Credit Institutions

We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $79 thousand at December 31, 2013, 2012 and 2011. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers.

We have a relationship with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll and workforce management services. Foundations was operated as part of AgriBank prior to January 1, 2012 when it formed a separate System service corporation. As of December 31, 2013 and 2012, our investment in Foundations was $37 thousand. The total cost of services we purchased from Foundations was $160 thousand and $165 thousand in 2013 and 2012, respectively.

REPORT OF MANAGEMENT
1st Farm Credit Services, ACA

We prepare the consolidated financial statements of 1st Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that on the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report and it has been prepared in accordance with all applicable statutory or regulatory requirements and 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

March 3, 2014

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

1st Farm Credit Services, ACA

The 1st Farm Credit Services, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2013. In making the assessment, management used the 1992 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2013, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2013.

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

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

March 3, 2014

REPORT OF AUDIT COMMITTEE

1st Farm Credit Services, ACA

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of five members of the Board of Directors of 1st Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2013, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2013.

Mike Pratt

Mike Pratt
Chairperson of the Audit Committee
1st Farm Credit Services, ACA

Kevin Aves
John S. Baylor
Clinton V. Brown
Kathleen Hainline

March 3, 2014

pwc

Independent Auditor's Report

To the Board of Directors and Members of 1st Farm Credit Services, ACA,

We have audited the accompanying consolidated financial statements of 1st Farm Credit Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2013, 2012 and 2011, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of 1st Farm Credit Services, ACA and its subsidiaries at December 31, 2013, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 3, 2014

PricewaterhouseCoopers LLP, 225 South Sixth Street, Suite 1400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA

(in thousands)

As of December 31	**2013**	2012	2011
ASSETS			
Loans	**$4,466,958**	$4,095,401	$3,381,073
Allowance for loan losses	**13,587**	9,365	10,949
Net loans	**4,453,371**	4,086,036	3,370,124
Investment in AgriBank, FCB	**133,456**	129,951	121,828
Investment securities	**218,796**	268,638	274,513
Accrued interest receivable	**37,902**	34,814	34,659
Premises and equipment, net	**26,375**	20,149	15,827
Other property owned	**15**	--	48
Assets held for lease, net	**24,524**	17,859	12,160
Other assets	**14,343**	15,001	17,039
Total assets	**$4,908,782**	$4,572,448	$3,846,198
LIABILITIES			
Note payable to AgriBank, FCB	**$4,036,821**	$3,785,178	$3,146,145
Accrued interest payable	**12,791**	11,570	11,576
Patronage distribution payable	**8,600**	8,400	8,200
Other liabilities	**17,706**	15,159	14,495
Total liabilities	**4,075,918**	3,820,307	3,180,416
Contingencies and commitments	**--**	--	--
MEMBERS' EQUITY			
Protected members' equity	**9**	12	16
Capital stock and participation certificates	**9,900**	9,694	9,189
Unallocated surplus	**822,955**	742,435	656,577
Total members' equity	**832,864**	752,141	665,782
Total liabilities and members' equity	**$4,908,782**	$4,572,448	$3,846,198

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA

(in thousands)

For the year ended December 31	2013	2012	2011
Interest income	**$157,231**	$146,711	$144,753
Interest expense	**47,994**	46,034	47,548
Net interest income	**109,237**	100,677	97,205
Provision for loan losses	**5,477**	1,463	746
Net interest income after provision for loan losses	**103,760**	99,214	96,459
Other income			
Patronage income	**24,647**	25,344	23,531
Financially related services income	**10,040**	10,974	10,160
Fee income	**5,469**	4,460	4,238
Allocated Insurance Reserve Accounts distribution	**--**	3,464	--
Miscellaneous income, net	**2,249**	1,354	1,423
Total other income	**42,405**	45,596	39,352
Operating expenses			
Salaries and employee benefits	**35,266**	31,853	30,193
Other operating expenses	**19,270**	16,913	15,824
Total operating expenses	**54,536**	48,766	46,017
Income before income taxes	**91,629**	96,044	89,794
Provision for income taxes	**2,477**	1,769	4,356
Net income	**$89,152**	$94,275	$85,438

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)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance as of December 31, 2010	$17	$8,665	$579,334	$588,016
Net income	--	--	85,438	85,438
Unallocated surplus designated for patronage distributions	--	--	(8,195)	(8,195)
Capital stock and participation certificates issued	--	1,084	--	1,084
Capital stock and participation certificates retired	(1)	(560)	--	(561)
Balance as of December 31, 2011	16	9,189	656,577	665,782
Net income	--	--	94,275	94,275
Unallocated surplus designated for patronage distributions	--	--	(8,417)	(8,417)
Capital stock and participation certificates issued	--	1,270	--	1,270
Capital stock and participation certificates retired	(4)	(765)	--	(769)
Balance as of December 31, 2012	12	9,694	742,435	752,141
Net income	**--**	**--**	**89,152**	**89,152**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(8,632)**	**(8,632)**
Capital stock and participation certificates issued	**--**	**942**	**--**	**942**
Capital stock and participation certificates retired	**(3)**	**(736)**	**--**	**(739)**
Balance as of December 31, 2013	**$9**	**$9,900**	**$822,955**	**$832,864**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

1st Farm Credit Services, ACA

(in thousands)

For the year ended December 31	**2013**	2012	2011
Cash flows from operating activities			
Net income	**$89,152**	$94,275	$85,438
Depreciation on premises and equipment	**1,756**	1,650	1,465
Gain on sale of premises and equipment	**(564)**	(173)	(1)
Depreciation on assets held for lease	**4,108**	3,217	3,036
Gain on disposal of assets held for lease	**(100)**	(49)	(76)
Amortization of premiums on loans and investment securities	**4,355**	4,664	4,148
Provision for loan losses	**5,477**	1,463	746
Stock patronage received from AgriBank, FCB	**(5,798)**	(5,166)	(5,871)
Gain on other property owned	**(667)**	(3)	--
Changes in operating assets and liabilities:			
Accrued interest receivable	**(4,785)**	(541)	(3,045)
Other assets	**658**	2,075	2,074
Accrued interest payable	**1,221**	(6)	55
Other liabilities	**2,547**	664	2,260
Net cash provided by operating activities	**97,360**	102,070	90,229
Cash flows from investing activities			
Increase in loans, net	**(372,435)**	(717,363)	(172,721)
Redemptions (purchases) of investment in AgriBank, FCB, net	**2,293**	(2,957)	(5,300)
Purchases of investment in other Farm Credit Institutions, net	**--**	(37)	--
Decrease (increase) in investment securities, net	**47,319**	2,393	(67,962)
Purchases of assets held for lease, net	**(10,673)**	(8,867)	(3,461)
Proceeds from sales of other property owned	**697**	51	--
Purchases of premises and equipment, net	**(7,418)**	(5,799)	(2,938)
Net cash used in investing activities	**(340,217)**	(732,579)	(252,382)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**251,643**	639,033	170,301
Patronage distributions	**(8,432)**	(8,217)	(7,995)
Capital stock and participation certificates retired, net	**(354)**	(307)	(153)
Net cash provided by financing activities	**242,857**	630,509	162,153
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$796**	$1,069	$876
Stock applied against loan principal	**236**	254	198
Stock applied against interest	**3**	7	2
Interest transferred to loans	**1,694**	379	731
Loans transferred to other property owned	**295**	--	48
Patronage distributions payable to members	**8,600**	8,400	8,200
Financed sales of other property owned	**250**	--	--
Supplemental information			
Interest paid	**$46,773**	$46,040	$47,493
Taxes paid (refunded)	**1,318**	(353)	5,580

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1st Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of December 31, 2013, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB) and 82 customer-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At December 31, 2013, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

1st Farm Credit Services, ACA (the Association) and its subsidiaries, 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (the subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Adams, Boone, Brown, Bureau, Carroll, Cook, DeKalb, DuPage, Fulton, Grundy, Hancock, Henderson, Henry, Jo Daviess, Kane, Kankakee, Kendall, Knox, Lake, LaSalle, Lee, Livingston, Marshall, Mason, McDonough, McHenry, McLean, Mercer, Ogle, Peoria, Pike, Putnam, Rock Island, Schuyler, Stark, Stephenson, Tazewell, Warren, Whiteside, Will, Winnebago and Woodford in the state of Illinois.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. In addition to the authorization described for the District our FLCA subsidiary also services certain long-term real estate loans owned by AgriBank.

We offer crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee based real estate appraisals and title insurance to our members and others.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of Consolidation

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

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. Other loan fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses are not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected,
- the borrower has demonstrated payment performance and
- the loan is not classified as doubtful or loss.

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.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan 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,
- estimated probability of default,
- estimated loss severity,
- portfolio quality and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- accruing restructured loans and
- accruing loans 90 days or more past due.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectibility of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity (recorded in "Provision for loan losses" in the Consolidated Statements of Income), recoveries and charge-offs.

Investment in AgriBank: Accounting for our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through "Miscellaneous income, net" in the Consolidated Statements of Income in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security's carrying amount.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Miscellaneous income, net” in the Consolidated Statements of Income. Depreciation and maintenance and repairs expenses are included in “Other operating expenses” in the Consolidated Statements of Income and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses and gains or losses from operations and carrying value adjustments are included in “Miscellaneous income, net” in the Consolidated Statements of Income.

Leases: We have finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings using the interest method. The carrying amount of finance leases is included in “Loans” in the Consolidated Statements of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual value. We recognize operating lease revenue evenly over the term of the lease and charge depreciation and other expenses against revenue as incurred in “Miscellaneous income, net” in the Consolidated Statements of Income. The amortized cost of operating leases is included in “Assets held for lease, net” in the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in the “Salaries and employee benefits” in the Consolidated Statements of Income.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. New benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

Certain employees also participate in the non-qualified defined benefit Pension Restoration Plan of the AgriBank District. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Statements of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, quoted prices that are not current or principal market information that is not released publicly,
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity’s own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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. In addition, no accounting pronouncements were adopted during 2013.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

	2013		2012		2011	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate	**$2,387,321**	**53.4%**	$2,154,458	52.6%	$1,723,090	50.9%
Commercial	**1,807,075**	**40.5%**	1,744,527	42.6%	1,537,488	45.5%
Other	**272,562**	**6.1%**	196,416	4.8%	120,495	3.6%
Total	**$4,466,958**	**100.0%**	$4,095,401	100.0%	$3,381,073	100.0%

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

Portfolio Concentrations

We have individual borrower, agricultural and territorial concentrations. As of December 31, 2013, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.3% of total loans and commitments.

Agricultural concentrations were as follows:

As of December 31	**2013**	2012	2011
Crops	**61.9%**	61.1%	58.9%
Landlords	**11.2%**	11.4%	12.3%
Livestock	**8.3%**	8.6%	9.6%
Processing and marketing	**6.4%**	7.1%	7.7%
Other	**12.2%**	11.8%	11.5%
Total	**100.0%**	100.0%	100.0%

We are chartered to operate in certain counties in Illinois. No county comprised more than 5.0% of our total loan portfolio at December 31, 2013.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume or comply with the FCA Regulations or General Financing Agreement (GFA) limitations. The following table presents information regarding participations purchased and sold (in thousands):

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2013	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate	**$ --**	**($439,845)**	**$82,687**	**($119,043)**	**$40,790**	**($664)**	**$123,477**	**($559,552)**
Commercial	**--**	**(23,174)**	**883,407**	**(1,000,462)**	**480,228**	**(3,629)**	**1,363,635**	**(1,027,265)**
Other	**--**	**--**	**302,290**	**(208,885)**	**10,640**	**--**	**312,930**	**(208,885)**
Total	**$ --**	**($463,019)**	**$1,268,384**	**($1,328,390)**	**$531,658**	**($4,293)**	**$1,800,042**	**($1,795,702)**
As of December 31, 2012								
Real estate	$ --	($504,679)	$35,351	($20,420)	$15,611	($738)	$50,962	($525,837)
Commercial	--	(12,237)	548,017	(495,002)	346,570	(12,743)	894,587	(519,982)
Other	--	--	148,579	(83,581)	18,582	--	167,161	(83,581)
Total	$ --	($516,916)	$731,947	($599,003)	$380,763	($13,481)	$1,112,710	($1,129,400)
As of December 31, 2011								
Real estate	$ --	($589,209)	$56,235	($39,376)	$16,903	($810)	$73,138	($629,395)
Commercial	--	(14,787)	435,709	(450,201)	375,385	(10,836)	811,094	(475,824)
Other	--	--	60,078	(39,332)	18,585	--	78,663	(39,332)
Total	$ --	($603,996)	$552,022	($528,909)	$410,873	($11,646)	$962,895	($1,144,551)

Information in the preceding chart excludes loans entered into under our mission related investment authority and leasing authority.

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable: loans are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM): loans are currently collectible but exhibit some potential weakness,
- Substandard: loans exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful: loans exhibit similar weaknesses to substandard loans; however, doubtful loans have additional weaknesses that make collection in full highly questionable and
- Loss: loans are considered uncollectible.

The following table summarizes loans and related accrued interest receivable classified under the FCA Uniform Classification System by loan type (dollars in thousands):

	Acceptable		OAEM		Substandard/ Doubtful/Loss		Total	
As of December 31, 2013	Amount	%	Amount	%	Amount	%	Amount	%
Real estate	**$2,376,059**	**98.8%**	**$14,542**	**0.6%**	**$14,633**	**0.6%**	**$2,405,234**	**100.0%**
Commercial	**1,774,232**	**97.3%**	**18,827**	**1.0%**	**31,565**	**1.7%**	**1,824,624**	**100.0%**
Other	**272,940**	**99.9%**	**62**	**--**	**236**	**0.1%**	**273,238**	**100.0%**
Total	**$4,423,231**	**98.3%**	**$33,431**	**0.7%**	**$46,434**	**1.0%**	**$4,503,096**	**100.0%**
As of December 31, 2012								
Real estate	$2,136,973	98.5%	$11,449	0.5%	$22,141	1.0%	$2,170,563	100.0%
Commercial	1,701,999	96.7%	17,857	1.0%	41,044	2.3%	1,760,900	100.0%
Other	196,724	99.9%	83	--	161	0.1%	196,968	100.0%
Total	$4,035,696	97.8%	$29,389	0.7%	$63,346	1.5%	$4,128,431	100.0%
As of December 31, 2011								
Real estate	$1,694,188	97.5%	$17,646	1.0%	$26,111	1.5%	$1,737,945	100.0%
Commercial	1,469,876	94.5%	46,631	3.0%	38,651	2.5%	1,555,158	100.0%
Other	120,686	99.7%	102	0.1%	196	0.2%	120,984	100.0%
Total	$3,284,750	96.2%	$64,379	1.9%	$64,958	1.9%	$3,414,087	100.0%

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

As of December 31, 2013	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 Past Due and Accruing
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**
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	$ --
As of December 31, 2011						
Real estate	$381	$6,400	$6,781	$1,731,164	$1,737,945	$ --
Commercial	380	9,653	10,033	1,545,125	1,555,158	--
Other	4,249	--	4,249	116,735	120,984	--
Total	$5,010	$16,053	$21,063	$3,393,024	$3,414,087	$ --

Risk Loans

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

As of December 31	2013	2012	2011
Nonaccrual loans:			
Current	**$10,756**	$9,003	$15,171
Past due	**11,893**	18,618	16,238
Total nonaccrual loans	**22,649**	27,621	31,409
Accruing restructured loans	**3,541**	665	580
Accruing loans 90 days or more past due	**592**	--	--
Total risk loans	**$26,782**	$28,286	$31,989
Volume with specific reserves	**$12,534**	$12,751	$16,653
Volume without specific reserves	**14,248**	15,535	15,336
Total risk loans	**$26,782**	$28,286	$31,989
Total specific reserves	**$4,991**	$3,931	$6,102

For the year ended December 31	2013	2012	2011
Income on accrual risk loans	**$91**	$34	$43
Income on nonaccrual loans	**641**	1,209	1,245
Total income on risk loans	**$732**	$1,243	$1,288
Average risk loans	**$27,796**	$26,443	$36,674

To mitigate credit risk, we entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) in 2012. In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac at the full length obligation of the note. This agreement remains in place until receipt of full payment. The net investment of loans subject to the purchase agreement was $29.4 million and $13.4 million at December 31, 2013 and 2012, respectively. Fees paid to Farmer Mac for these commitments totaled $201 thousand and $38 thousand in 2013 and 2012, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Income. As of December 31, 2013, no sales of loans to Farmer Mac have been made under this agreement.

Nonaccrual loans by loan type were as follows (in thousands):

As of December 31	**2013**	2012	2011
Real estate	**$6,106**	$10,409	$10,995
Commercial	**16,307**	17,148	20,402
Other	**236**	64	12
Total	**$22,649**	$27,621	$31,409

Accruing loans 90 days or more past due and related accrued interest by loan type were as follows (in thousands):

As of December 31	**2013**	2012	2011
Real estate	**$456**	$ --	$ --
Other	**136**	--	--
Total	**$592**	$ --	$ --

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.

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2013			**For the year ended December 31, 2013**	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	**$2,536**	**$2,615**	**$1,043**	**$2,497**	**$ --**
Commercial	**9,998**	**11,553**	**3,948**	**10,705**	**--**
Other	**--**	**--**	**--**	**--**	**--**
Total	**$12,534**	**$14,168**	**$4,991**	**$13,202**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate	**$7,185**	**$8,298**	**$ --**	**$7,068**	**$595**
Commercial	**6,690**	**9,339**	**--**	**6,967**	**118**
Other	**373**	**367**	**--**	**559**	**19**
Total	**$14,248**	**$18,004**	**$ --**	**$14,594**	**$732**
Total impaired loans:					
Real estate	**$9,721**	**$10,913**	**$1,043**	**$9,565**	**$595**
Commercial	**16,688**	**20,892**	**3,948**	**17,672**	**118**
Other	**373**	**367**	**--**	**559**	**19**
Total	**$26,782**	**$32,172**	**$4,991**	**$27,796**	**$732**

	As of December 31, 2012			For the year ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	$2,964	$4,154	$859	$2,625	$ --
Commercial	9,787	10,012	3,072	9,492	--
Other	--	--	--	--	--
Total	$12,751	$14,166	$3,931	$12,117	$ --
Impaired loans with no related allowance for loan losses:					
Real estate	$8,049	$8,623	$ --	$7,007	$332
Commercial	7,422	11,787	--	7,115	905
Other	64	64	--	204	6
Total	$15,535	$20,474	$ --	$14,326	$1,243
Total impaired loans:					
Real estate	$11,013	$12,777	$859	$9,632	$332
Commercial	17,209	21,799	3,072	16,607	905
Other	64	64	--	204	6
Total	$28,286	$34,640	$3,931	$26,443	$1,243

	As of December 31, 2011			For the year ended December 31, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate	$2,650	$2,666	$936	$1,741	$ --
Commercial	14,003	14,242	5,166	18,636	--
Other	--	--	--	--	--
Total	$16,653	$16,908	$6,102	$20,377	$ --
Impaired loans with no related allowance for loan losses:					
Real estate	$8,925	$9,463	$ --	$8,919	$512
Commercial	6,399	9,367	--	7,002	770
Other	12	12	--	376	6
Total	$15,336	$18,842	$ --	$16,297	$1,288
Total impaired loans:					
Real estate	$11,575	$12,129	$936	$10,660	$512
Commercial	20,402	23,609	5,166	25,638	770
Other	12	12	--	376	6
Total	$31,989	$35,750	$6,102	$36,674	$1,288

The recorded investment in the loan is the face amount 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.

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2013.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including troubled debt restructurings, are analyzed within our allowance for loan losses.

The following table presents information regarding troubled debt restructurings that occurred during the year ended December 31 (in thousands):

	2013		2012		2011	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate	**$3,355**	**$3,355**	$56	$56	$2,293	$2,293
Commercial	**1,662**	**1,662**	1,879	1,888	9,608	9,608
Total	**$5,017**	**$5,017**	$1,935	$1,944	$11,901	$11,901

Pre-modification outstanding represents the recorded investment of the loan 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.

The following table presents troubled debt restructurings that defaulted during the years ended December 31 in which the modification date was within 12 months of the respective reporting period (in thousands):

	2013	2012	2011
Real estate	**$ --**	$ --	$2,283
Commercial	**--**	122	1,549
Total	**$ --**	$122	$3,832

The following table presents information regarding troubled debt restructurings outstanding as of December 31 (in thousands):

	2013	2012	2011
Troubled debt restructurings	**$15,035**	$14,497	$15,702
Troubled debt restructurings in nonaccrual status	**11,494**	13,832	15,122

Troubled debt restructurings did not change significantly due to charge-offs as well as payments on restructured loans. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $839 thousand at December 31, 2013.

Allowance for Loan Losses

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

For the year ended December 31	**2013**	2012	2011
Balance at beginning of year	**$9,365**	$10,949	$13,314
Provision for loan losses	**5,477**	1,463	746
Loan recoveries	**54**	82	553
Loan charge-offs	**(1,309)**	(3,129)	(3,664)
Balance at end of year	**$13,587**	$9,365	$10,949

The increase in allowance for loan losses is largely the result of a $4.3 million provision expense recorded in 2013 to account for our estimated exposure to historically high farmland values.

A summary of changes in the allowance for loan losses and period end recorded investments in loans by loan type follows (in thousands):

	Real Estate	Commercial	Other	Total
Allowance for loan losses:				
Balance as of December 31, 2012	**$1,564**	**$7,486**	**$315**	**$9,365**
Provision for loan losses	**5,088**	**372**	**17**	**5,477**
Loan recoveries	**11**	**43**	**--**	**54**
Loan charge-offs	**(639)**	**(670)**	**--**	**(1,309)**
Balance as of December 31, 2013	**$6,024**	**$7,231**	**$332**	**$13,587**
Ending balance: individually evaluated for impairment	**$1,043**	**$3,948**	**$ --**	**$4,991**
Ending balance: collectively evaluated for impairment	**$4,981**	**$3,283**	**$332**	**$8,596**
Recorded investments in loans outstanding:				
Ending balance as of December 31, 2013	**$2,405,234**	**$1,824,624**	**$273,238**	**$4,503,096**
Ending balance: individually evaluated for impairment	**$9,721**	**$16,688**	**$373**	**$26,782**
Ending balance: collectively evaluated for impairment	**$2,395,513**	**$1,807,936**	**$272,865**	**$4,476,314**
Allowance for loan losses:				
Balance as of December 31, 2011	$3,298	$7,618	$33	$10,949
(Reversal of) provision for loan losses	(719)	1,900	282	1,463
Loan recoveries	3	79	--	82
Loan charge-offs	(1,018)	(2,111)	--	(3,129)
Balance as of December 31, 2012	$1,564	$7,486	$315	$9,365
Ending balance: individually evaluated for impairment	$859	$3,072	$ --	$3,931
Ending balance: collectively evaluated for impairment	$705	$4,414	$315	$5,434
Recorded investments in loans outstanding:				
Ending balance as of December 31, 2012	$2,170,563	$1,760,900	$196,968	$4,128,431
Ending balance: individually evaluated for impairment	$11,013	$17,209	$64	$28,286
Ending balance: collectively evaluated for impairment	$2,159,550	$1,743,691	$196,904	$4,100,145
Allowance for loan losses:				
Balance as of December 31, 2010	$3,107	$10,194	$13	$13,314
Provision for loan losses	192	534	20	746
Loan recoveries	2	551	--	553
Loan charge-offs	(3)	(3,661)	--	(3,664)
Balance as of December 31, 2011	$3,298	$7,618	$33	$10,949
Ending balance: individually evaluated for impairment	$936	$5,166	$ --	$6,102
Ending balance: collectively evaluated for impairment	$2,362	$2,452	$33	$4,847
Recorded investments in loans outstanding:				
Ending balance as of December 31, 2011	$1,737,945	$1,555,158	$120,984	$3,414,087
Ending balance: individually evaluated for impairment	$11,575	$20,402	$12	$31,989
Ending balance: collectively evaluated for impairment	$1,726,370	$1,534,756	$120,972	$3,382,098

NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 2013, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

As of December 31, 2013, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $133.5 million, $130.0 million and $121.8 million at December 31, 2013, 2012 and 2011, respectively.

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $218.8 million, $268.6 million and $274.5 million at December 31, 2013, 2012 and 2011, respectively. 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 December 31	**2013**	2012	2011
Amortized cost	**$218,796**	$268,638	$274,513
Unrealized gains	**5,726**	5,419	5,310
Unrealized losses	**(610)**	(508)	(312)
Fair value	**$223,912**	$273,549	$279,511
Weighted average yield	**1.3%**	1.2%	1.3%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $3.3 million, $3.5 million and $3.1 million in 2013, 2012 and 2011, respectively.

NOTE 6: PREMISES AND EQUIPMENT, NET

Premises and equipment consisted of the following (in thousands):

As of December 31	**2013**	2012	2011
Land, buildings and improvements	**$25,426**	$19,482	$15,247
Furniture and equipment	**10,805**	9,671	8,440
Subtotal	**36,231**	29,153	23,687
Less: accumulated depreciation	**9,856**	9,004	7,860
Premises and equipment, net	**$26,375**	$20,149	$15,827

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral. The following table summarizes note payable information (dollars in thousands):

As of December 31	**2013**	2012	2011
Line of credit	**$4,500,000**	$4,200,000	$3,400,000
Outstanding principal under the line of credit	**4,036,821**	3,785,178	3,146,145
Interest rate	**1.3%**	1.3%	1.5%

Our note payable matures November 30, 2014, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality and financial condition. At December 31, 2013, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, our Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is generally required of customers to whom a lease is issued and of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the FCSIC would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required 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%. The calculation of these ratios in accordance with the FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2013, our ratio was 15.2%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2013, our ratio was 15.0%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2013, our ratio was 15.0%.

Regulatory capital includes all of our investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We had no excess stock at December 31, 2013, 2012 or 2011.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2013. All shares and participation certificates are stated at a $5.00 par value.

	Shares Outstanding
Class A common stock (protected)	**1,855**
Class C common stock (at-risk)	**1,952,027**
Participation certificates (at-risk)	**27,769**

Under our bylaws, we are also authorized to issue Class B, Class D and Class E common stock and Class F preferred stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2013, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed to holders of Class F preferred stock and then pro rata to holders of Class A, B, C, D and E common stock and participation certificates.

In the event of impairment, losses will be absorbed pro rata by holders of Class A, B, C, D and E common stock and participation certificates, then by Class F preferred stock; however, protected stock will be retired at par value regardless of impairment.

All classes of stock, except Class B and Class E, are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements. Class B common stock may be transferred to those eligible to hold Class C common stock. Class E common stock may only be transferred to System institutions. Participation certificates may be transferred to any person or entity eligible to hold such participation certificates.

Patronage Distributions

We accrued patronage distributions of $8.6 million, $8.4 million and $8.2 million at December 31, 2013, 2012 and 2011, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2014.

NOTE 9: INCOME TAXES

Provision for Income Taxes

Our provision for income taxes follows (dollars in thousands):

For the year ended December 31	**2013**	2012	2011
Current:			
Federal	**$1,962**	$1,285	$3,257
State	**515**	484	1,099
Total current	**2,477**	1,769	4,356
Deferred:			
Federal	**191**	877	(132)
State	**(118)**	192	(29)
(Decrease) increase in valuation allowance	**(73)**	(1,069)	161
Total deferred	**--**	--	--
Provision for income taxes	**$2,477**	$1,769	$4,356
Effective tax rate	**2.7%**	1.8%	4.9%

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	**2013**	2012	2011
Federal tax at statutory rate	**$32,070**	$32,655	$30,530
Impact of graduated rates	**(61)**	--	--
State tax, net	**380**	448	660
Patronage distributions	**(2,846)**	(2,856)	(2,788)
Effect of non-taxable entity	**(27,104)**	(27,369)	(24,163)
(Decrease) increase in valuation allowance	**(73)**	(1,069)	161
Other	**111**	(40)	(44)
Provision for income taxes	**$2,477**	$1,769	$4,356

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition. Deferred tax assets and liabilities were composed of the following (in thousands):

As of December 31	**2013**	2012	2011
Allowance for loan losses	**$2,520**	$2,660	$3,170
Postretirement benefit accrual	**212**	206	204
Accrued incentive	**419**	202	301
Leasing related, net	**(1,524)**	(1,390)	(779)
Accrued patronage income not received	**(759)**	(628)	(659)
AgriBank, FCB 2002 allocated stock	**(586)**	(586)	(586)
Accrued pension asset	**(14)**	(74)	(104)
Depreciation	**(1)**	(11)	(12)
Other liabilities	**(33)**	(72)	(159)
Total deferred tax assets	**234**	307	1,376
Valuation allowance	**(234)**	(307)	(1,376)
Deferred tax assets, net	**$ --**	$ --	$ --
Gross deferred tax assets	**$3,151**	$3,068	$3,675
Gross deferred tax liabilities	**($2,917)**	($2,761)	($2,299)

Our patronage distributions are estimated to substantially reduce our taxable income going forward. Under these estimates, the ability to realize the entire tax savings represented by the future reversal of the deferred tax assets is uncertain and a valuation allowance has been established for the net deferred tax asset.

We have not provided for deferred income taxes on approximately $16.4 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $731.4 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2013. In addition, we believe we are no longer subject to income tax examinations for years prior to 2010.

NOTE 10: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and Affiliated Associations 2013 Annual Report (District financial statements).

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee (a subset of the Plan Sponsor Committee comprised of AgriBank District representatives) is responsible for decisions regarding retirement benefits at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan’s benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan’s termination is contingent on the sufficiency of the plan’s net assets to provide benefits at that time. This Plan is noncontributory and covers certain eligible District employees. The assets, liabilities and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers’ retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $255.2 million at December 31, 2013. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the District-wide plan was $1.0 billion, $1.1 billion and $934.8 million at December 31, 2013, 2012 and 2011, respectively. The fair value of the plan assets was $759.5 million, $640.1 million and $557.6 million at December 31, 2013, 2012 and 2011, respectively. The accumulated benefit obligation, which is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation, exceeds pension plan assets. The accumulated benefit obligation for the District-wide plan was $864.2 million, $908.2 million and $788.0 million at December 31, 2013, 2012 and 2011, respectively. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Total plan expense for participating employers was $63.3 million, $52.7 million and $44.0 million for 2013, 2012 and 2011, respectively. Our allocated share of plan expenses included in “Salaries and employee benefits” in the Consolidated Statements of Income was $4.1 million, $3.7 million and $3.1 million for 2013, 2012 and 2011, respectively. Participating employers contributed $59.0 million, $51.3 million and $27.9 million to the plan in 2013, 2012 and 2011, respectively. Our allocated share of these pension contributions was $3.9 million, $3.6 million and $2.2 million for 2013, 2012 and 2011, respectively. Benefits paid to participants in the District were $49.8 million in 2013, none of which were paid to our senior officers who were actively employed during the year. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plans during 2014 is $32.6 million. Our allocated share of these pension contributions is expected to be $2.3 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee’s active status. Postretirement benefit costs included in “Salaries and employee benefits” in the Consolidated Statements of Income were $130 thousand, $117 thousand and $130 thousand for 2013, 2012 and 2011, respectively. Our cash contributions, equal to the benefits paid, were $94 thousand, $102 thousand and $107 thousand for 2013, 2012 and 2011, respectively.

Nonqualified Retirement Plan: We also participate in the District-wide non-qualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

As disclosed in the District financial statements, the Pension Restoration Plan reflects an unfunded liability totaling $25.3 million at December 31, 2013. This plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The projected benefit obligation of the Pension Restoration Plan was $25.3 million, $23.5 million and $16.6 million at December 31, 2013, 2012 and 2011, respectively. The accumulated benefit obligation for the Pension Restoration Plan was $19.8 million, $17.5 million and $13.6 million at December 31, 2013, 2012 and 2011, respectively. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees. Total Pension Restoration Plan expense for participating employers was $3.6 million, $2.4 million and $2.5 million for 2013, 2012 and 2011, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" in the Consolidated Statements of Income was $176 thousand, $130 thousand and $96 thousand for 2013, 2012 and 2011, respectively. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions, equal to the benefits paid, were $15 thousand for 2013, 2012 and 2011. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

Retirement Savings Plans

We participate in a defined contribution retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, be either a Chief Executive Officer or President of a participating employer or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

Employer contribution expenses for the retirement savings plans, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were $1.4 million, $1.3 million and $1.2 million in 2013, 2012 and 2011, respectively. These expenses were equal to our cash contributions for each year.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2013 involved more than a normal risk of collectibility.

The following table presents information on loans and leases to related parties (in thousands):

	2013	2012	2011
As of December 31:			
Total related party loans and leases	**$26,195**	$24,692	$25,997
For the year ended December 31:			
Advances to related parties	**$13,708**	$9,304	$11,945
Repayments by related parties	**14,256**	10,072	11,320

The related parties can be different each year end primarily due to changes in the composition of our Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including financial and retail systems, support and reporting, technology services, insurance services and internal audit services. The total cost of services we purchased from AgriBank was $1.1 million in 2013, 2012 and 2011. We also purchase human resource information systems, benefit, payroll and workforce management services from Farm Credit Foundations (Foundations). Foundations was operated as a part of AgriBank prior to January 1, 2012 when it formed a separate System service corporation. The System entities using Foundations' services contributed an investment into the service corporation in January 2012. Our investment was $37 thousand at December 31, 2013 and 2012. The total cost of services purchased from Foundations was $160 thousand and $165 thousand in 2013 and 2012, respectively.

NOTE 12: CONTINGENCIES AND COMMITMENTS

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2013, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $1.4 billion. Additionally, we had $5.7 million of issued standby letters of credit as of December 31, 2013.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: 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 Note 2 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 December 31, 2013, 2012 or 2011. 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):

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

As of December 31, 2012	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$555	$8,705	$9,260	($958)
Other property owned	--	--	--	--	3

As of December 31, 2011	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$361	$10,718	$11,079	$285
Other property owned	--	--	50	50	--

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.

Refer to Note 2 for a description of the methods used to determine the fair value hierarchy.

NOTE 14: FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of all our financial instruments is as follows (in thousands):

	2013		2012		2011	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans	**$4,453,371**	**$4,419,048**	$4,086,036	$4,132,021	$3,370,124	$3,418,368
Investment securities	**218,796**	**223,912**	268,638	273,549	274,513	279,511
Financial liabilities:						
Note payable to AgriBank, FCB	**$4,036,821**	**$4,001,117**	$3,785,178	$3,824,971	$3,146,145	$3,186,966
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**($1,726)**		($1,621)		($1,571)

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk and
- other factors.

These estimates involve uncertainties, matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 4, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Net loans: Because no active market exists for our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio less marketable outside the System.

For fair value of loans individually impaired, we assume collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Investment securities: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates adjusted for credit risk.

Note payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

NOTE 15: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the year ended December 31 follows (in thousands):

2013	First	Second	Third	Fourth	Total
Net interest income	**$26,990**	**$26,611**	**$27,506**	**$28,130**	**$109,237**
Provision for (reversal of) loan losses	**442**	**(548)**	**4**	**5,579**	**5,477**
Patronage income	**4,816**	**5,640**	**5,491**	**8,700**	**24,647**
Other expense, net	**9,755**	**11,408**	**5,267**	**10,348**	**36,778**
Provision for income taxes	**1,183**	**209**	**305**	**780**	**2,477**
Net income	**$20,426**	**$21,182**	**$27,421**	**$20,123**	**$89,152**

2012	First	Second	Third	Fourth	Total
Net interest income	$24,662	$24,870	$25,414	$25,731	$100,677
Provision for (reversal of) loan losses	9	(386)	1,513	327	1,463
Patronage income	5,543	6,259	5,399	8,143	25,344
Other expense, net	9,383	6,490	4,829	7,812	28,514
Provision for (benefit from) income taxes	368	927	664	(190)	1,769
Net income	$20,445	$24,098	$23,807	$25,925	$94,275

2011	First	Second	Third	Fourth	Total
Net interest income	$24,639	$24,607	$23,765	$24,194	$97,205
Provision for (reversal of) loan losses	9	559	3,496	(3,318)	746
Patronage income	4,780	4,678	5,652	8,421	23,531
Other expense, net	8,485	8,579	4,657	8,475	30,196
Provision for (benefit from) income taxes	2,302	1,096	1,419	(461)	4,356
Net income	$18,623	$19,051	$19,845	$27,919	$85,438

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 3, 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 2013 consolidated financial statements or disclosures in the notes to consolidated financial statements, except for the sale of substantially our entire leasing portfolio to Farm Credit Leasing (FCL) in January 2014.

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. As part of the transaction, we recognized a gain of $322 thousand.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

1st Farm Credit Services, ACA

(Unaudited)

Description of Business

General information regarding the business is discussed in Note 1 of this Annual Report.

The description of significant business developments, if any, is discussed in the "Management's Discussion and Analysis" section of this Annual Report.

Description of Property

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Aledo, IL	Owned	Branch
Bourbonnais, IL	Leased	Branch
Edwards, IL	Owned	Branch
Freeport, IL	Leased	Branch
Geneseo, IL	Owned	Branch
Macomb, IL	Owned	Branch
Monmouth, IL	Owned	Branch
Morton, IL	Owned	Branch
Naperville, IL	Leased	Branch
Normal, IL	Owned	Headquarters
Normal, IL	Leased	Branch
Oregon, IL	Owned	Branch
Ottawa, IL	Owned	Branch
Pontiac, IL	Leased	Branch
Princeton, IL	Owned	Branch
Quincy, IL	Owned	Branch
Rock Falls, IL	Leased	Branch
Sycamore, IL	Leased	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 12 of this Annual Report. We were not subject to any enforcement actions as of December 31, 2013.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 8 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 7, 8, 9, 10, 12 and 14 of this Annual Report.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data" is presented at the beginning of this Annual Report.

Management's Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition and results of operations are discussed in the "Management's Discussion and Analysis" section of this Annual Report.

Board of Directors

Information regarding directors who served as of December 31, 2013, including business experience in the last five years and any other business interest where a director serves on the Board of Directors or as a senior officer follows:

Jeffrey Austman, Vice Chairperson
Forrest, IL
Jeff has a corn and soybean operation. He serves as a board member for the Prairie Central Board of Education. He also serves as board chairperson for the Gibson Area Hospital & Health Services Foundation. He served as Vice Chairperson of the Board and Vice Chairperson of the Executive Committee. Jeff also served on the Business Operations and Risk Committee. He has served on the Board since 2009 and his term expires in 2016.

Kevin Aves
Kirkland, IL
Kevin farms with family members in their corn, soybean and wheat operation. He serves as a trustee and treasurer of the Kirkland Community Fire District. He served on the Audit Committee. He has served on the Board since 1992 and his term expires in 2017.

Brian C. Baldwin, Appointed Inside Director
Warrenville, IL
Brian is the managing director of a private investment management company. He has more than 19 years of risk management, finance and public accounting experience. Brian owns land which is enrolled in the Conservation Reserve Program. He served as Vice Chairperson on the Audit Committee. He has served on the Board since 2010 and his term expires in 2014.

John S. Baylor
Cuba, IL
John has a corn and soybean operation and also has a beef cow herd. He is a director on the AgriBank District Farm Credit Council Board. John served on the Audit Committee and the Government Affairs Committee. He has served on the Board since 1994 and his term expires in 2016.

Clinton V. Brown
Towanda, IL
Clinton has a corn and soybean operation and owns land which is enrolled in the Conservation Reserve Program. Clinton also owns a property management business. He served on the Audit Committee. He has served on the Board since 2011 and his term expires in 2014.

Steve Cowser, Chairperson
Bradford, IL
Steve farms with family members in their corn, soybean, wheat and hay operation. They also have a sow center and a cow/calf herd. He serves as the Milo Township Supervisor. He served as Chairperson of the Board and Chairperson of the Executive Committee. He also served on the Governance and Compensation committees. He has served on the Board since 2004 and his term expires in 2016.

Larry L. Fischer, Appointed Outside Director
Quincy, IL
Larry owns farmland and is a trustee at John Wood Community College, where he served as Director of Agricultural Programs for 25 years and subsequently Vice President for Instruction for seven years. He is a board director for the Quincy Area Community Foundation. He served on the Governance, Compensation and Government Affairs committees. He has served on the Board since 1989 and his term expires in 2015.

Kathleen Hainline, Appointed Outside Director
Stanford, IL
Kathleen was affiliated with an agriculture risk management consulting/brokerage firm. She has 18 years of auditing experience in financial institutions and agribusiness. She served as Chairperson of the Governance and Compensation committees. She also served on the Executive Committee. She has served on the Board since 2010 and her term expires in 2017.

David A. Keller
Mt. Carroll, IL
David farms with a family member in their corn, soybean and hay operation. He served on the Governance and Compensation committees. He has served on the Board since 1987 and his term expires in 2017.

Rodney F. McGaughey
Carthage, IL
Rod has a corn, soybean and hay operation and also has a beef cow/calf herd. He serves as a board director of the Hancock County Farm Bureau in Carthage. He also serves as town clerk of Prairie Township. Rod served as Vice Chairperson of the Governance and Compensation committees. He has served on the Board since 1986 and his term expires in 2014.

Roger J. Newell
Williamsfield, IL
Roger farms with family members in their corn, soybean and alfalfa operation. They also have a beef cow/calf herd and a purebred swine operation. He serves as chairman of the Multi-Township Board for Elba, Salen, Maquon and Chestnut Townships in Knox County. He also serves as the Elba Township Supervisor. Roger served as Chairperson on the Business Operations and Risk Committee. He also served on the Executive Committee. He has served on the Board since 1995 and his term expires in 2015.

David H. Peters
Manteno, IL
David farms with family members and custom farms in a grain operation producing wheat, soybeans and corn. He serves as president on the Manteno Township Fire Protection District Fire Commission and director for the Manteno Farmer's Elevator both in Manteno. He also serves as treasurer of the Kankakee County Soil and Water Conservation District in Bourbonnais. David served on the Business Operations and Risk Committee. He has served on the Board since 2010 and his term expires in 2017.

Mike Pratt
Dixon, IL
Mike farms with family members in their corn, soybean and seed corn operation. He served as Chairperson on the Audit Committee. He also served on the Executive Committee. He has served on the Board since 2002 and his term expires in 2014.

John C. Schmitt
Quincy, IL
John has a corn, soybean, hay and other forages operation. He also has a beef cattle operation. He serves as a director for AgriBank, FCB in St. Paul, MN and Adams County Farm Bureau in Quincy. He served as Vice Chair of the Business Operations and Risk Committee. He has served on the Board since 1995 and his term expires in 2017.

Roger Schrodt
Galesburg, IL
Roger has a corn and soybean operation. Roger served on the Business Operations and Risk Committee. He has served on the Board since 2000 and his term expires in 2014.

Our bylaws permit compensation of directors for service at Board and committee meetings, and special assignments and travel time associated with those meetings. Directors are compensated at a daily rate of $650 per day for quarterly and regularly scheduled board meetings. Directors are also compensated at a daily rate of $500 per day for all other meetings or events attended. Directors are eligible for an annual stipend that is variable, based upon actual business results, with a maximum amount of $4,500. In 2013, directors received an additional stipend payment of $1,000 based on the achievement of specific association business goals. The Board chairperson received an additional $1,500 annual stipend and the Board vice chairperson received an additional $750 annual stipend. Also, each committee chairperson received an additional $750 annual stipend. Only one chairperson stipend can be received by a Board member. Members of the Board of Directors did not receive any additional compensation for serving on Board committees.

Information regarding compensation paid to each director who served during 2013 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee		
	Board Meetings	Other Official Activities		Name of Committee	Total Compensation Paid in 2013
Austman, Jeffrey	16.0	13.5	$ --		$24,097
Aves, Kevin	16.0	3.8	--		19,227
Baldwin, Brian C.	10.0	3.0	--		14,518
Baylor, John S.	16.0	20.3	--		27,588
Brown, Clinton V.	16.0	8.8	--		21,095
Cowser, Steve	16.0	15.5	--		25,969
Fischer, Larry L.	12.0	3.5	--		16,899
Hainline, Kathleen**	15.5	7.0	750	Governance/Compensation	20,144
Keller, David A.	16.0	5.0	--		20,079
McGaughey, Rodney F.	16.0	6.5	--		20,672
Menold, Michael L.*	0.0	0.0	--		4,500
Newell, Roger J.	16.0	12.5	750	Business Operations and Risk	23,819
Peters, David H.	16.0	6.5	--		20,227
Pratt, Mike	16.0	8.8	750	Audit	22,549
Schmitt, John C.	14.0	6.0	--		19,084
Schrodt, Roger	16.0	4.5	--		19,245
Total	227.5	125.2	$2,250		$319,712

*Not re-elected

**Kathleen Hainline is the Chairperson of both the Governance Committee and Compensation Committee. Only one chairperson stipend can be received by a Board member.

Senior Officers

The senior officers (and the date each began his/her current position) include:

Gary J. Ash, President and Chief Executive Officer (May 2006)
Keith Braucht, Chief Operating Officer (July 2006)
Jim Garvin, Chief Financial Officer (October 1999)
Matt Ginder, Sr. Vice President, Marketplace Delivery (January 2010)
Terry L. Hinds, Sr. Vice President, Business Lending & Corporate Relations (January 2008)
Ron Homann, Risk Management Officer (August 2006)
Robert F. Keller, Chief Information Officer (July 2006)
Barbara Kay Stille, Sr. Vice President, General Counsel (May 2006)

All of the senior officers have been with our association for more than five years.

In addition to serving as a senior officer, Mr. Ash serves on the board for the American Red Cross of the Heartland, Bloomington, IL, which is a community service organization. Mr. Keller owns and operates Double Tap Academy, LLC, a personal safety equipment sales and consulting business. Mr. Ginder is an appointed trustee on the Village Board of Goodfield, IL.

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office. The results of advisory votes are disclosed in the "Disclosure Information Required by Regulations" section of the Annual Report for the year during which the vote was held. During the year ended December 31, 2013 no advisory vote was held.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 11 of this Annual Report.

Travel, Subsistence and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 2000 Jacobssen Drive, Normal, IL 61761, (309) 268-0100 or through our website at www.1stfarmcredit.com.

The total directors' travel, subsistence and other related expenses were $149 thousand, $165 thousand and $167 thousand in 2013, 2012 and 2011, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2014 or at any time during 2013.

Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2013 were $83 thousand. The fees paid were for audit services.

Financial Statements

The "Report of Management", "Report on Internal Control Over Financial Reporting", "Report of Audit Committee", "Independent Auditor's Report", "Consolidated Financial Statements" and "Notes to Consolidated Financial Statements" are presented prior to this portion of the Annual Report.

Credit and Services to Young, Beginning and Small Farmers and Ranchers

Information regarding credit and services to young, beginning and small farmers and ranchers and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, religion, national origin, sex, age, disability, veteran status, genetic information, sexual orientation, creed, marital status, status with regard to public assistance, membership or activity involving a local human rights commission or any other characteristic protected by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS

1st Farm Credit Services, ACA

(Unaudited)

We maintain a Young, Beginning, Small (YBS) farmer program and policy to support our mission in serving this key client segment. The YBS program and policy are reviewed annually by the Board of Directors. A description of the YBS program and a status report on key program components are set out below.

Farm Credit Administration Regulations Define YBS Farmer

YBS farmers or agribusinesses are those meeting any of the following criteria:

- Young farmers/agribusiness owners are 35 years old or younger as of the date the loan was originally made (based on the youngest liable party on the loan).
- Beginning farmers/agribusiness owners have 10 years or less experience as the primary manager of the farming operation as of the date the loan was originally made.
- Small farmers normally generate less than $250,000 in annual sales from agricultural production as of the date the loan was originally made.

YBS Farmer Demographics

We have used the 2007 United States Department of Agriculture (USDA) Ag census as the source of demographic data in our market for YBS farmers. We have 34,426 farmers in our 42 county territory. 5.9% or 2,044 are young farmers, 21.1% or 7,267 are beginning farmers and 79.0% or 27,177 are small farmers. This data is as of 2007 whereas our portfolio data is current. The USDA data includes farmers who do not borrow money. The 2007 Ag census data is based on the number of farmers where our portfolio data is based on number of loans in each category.

Mission Statement

To achieve our vision, we must effectively serve the YBS farmers in our market place. Our success is dependent on being able to provide sound and constructive credit and financial services to YBS farmers who represent the future of agriculture in Illinois. We will also support local YBS farmer groups in the communities with various outreach programs and initiatives on an ongoing basis.

We will accomplish this mission by:

- Providing special loan programs and underwriting to meet the needs of YBS farmers,
- Offering either directly or through external relationships, a number of financial services which will benefit the YBS client in risk management,
- Making full use of both the Farm Service Agency (FSA) and Illinois Finance Authority (IFA) guaranteed loan programs,
- Establishing both quantitative portfolio goals and qualitative goals for services offered and
- Continuing to participate in numerous outreach programs which benefit YBS farmers.

Portfolio Quantitative Goals

We will strive to maintain a portfolio mix of YBS farmers which matches that in the marketplace based on recent USDA Ag census data. As of 2007, 5.9% of all farmers were young and 21.1% of all farmers were beginning in our market territory. The small farmer segment in our territory is comprised of 27,177 farmers based on the 2007 USDA Ag census. 53% of these operations have Gross Farm Income of less than $10,000 and 71% of all small farmers do not borrow money. These two factors were considered when setting our small farmer goals.

Based on this information, our quantitative targets are to maintain the following portfolio goals during the business plan period:

	Pct of Total Loans		Pct of New Loans		Pct of $ of New Loans	
	Goal	Result	Goal	Result	Goal	Result
Young Farmers	8.0%	14.9%	8.0%	11.7%	5.0%	12.0%
Beginning Farmers	15.0%	16.3%	15.0%	11.8%	5.0%	12.6%
Small Farmers	40.0%	39.1%	40.0%	23.4%	20.0%	14.3%

Qualitative Goals for Our YBS Program

The following related services were offered directly or indirectly through others to YBS farmers during 2013:

- Crop Insurance, both Hail and Multi-Peril Crop Insurance
- Life Insurance through other local providers
- Farm Product Marketing Assistance through other local providers
- Farm Records and Tax Prep Services through other local providers (we subsidize part of first year's cost)
- Financial Planning and Management Services through other local providers
- Fee Real Estate Appraisal Services
- Equipment and Facility Leasing

We made use of federal and state loan guarantee programs in providing loans and leases to YBS Farmers.

- We maintain a Preferred Lender Program designation with FSA.
- We offer and support the use of the State of Illinois, IFA Loan Restructuring and Guarantee Programs.

Outreach Programs

We have developed an annual marketing and promotion plan for the YBS farmer market segments. This program includes various promotions and programs that will both build awareness and provide financial assistance to local programs and groups, which assist YBS farmers. Additionally we continue periodic contacts with state and federal guarantee agencies to improve our working relationship and better understand their programs.

Our support of Outreach programs for YBS farmers includes:

- Providing an annual scholarship program for high school and community college students pursuing an Agriculture degree.
- In late 2010 we funded a $1,000,000 Donor Advised Fund through Illinois Agricultural Association Foundation supporting Ag Education, Ag Youth and Ag Leadership in Illinois. The intended recipients are Illinois 4-H, Illinois Future Farmers of America (FFA), Illinois Agriculture in the Classroom, Illinois Agriculture Leadership Foundation, University of Illinois College of ACES, Illinois State University Department of Agriculture, Western Illinois University School of Agriculture, AgrAbility, Annie's Project, Women in Ag and Cook County Farm Bureau for Ag related projects in schools in the Chicago metropolitan area. Distributions occur annually. In late 2012 another $250,000 was added to this fund.
- Sponsored the "Cultivating Master Farmers" program with other Illinois Farm organizations.
- Annual sponsorship of Risk Management Seminars and Brock Seminars with paid invitations made to interested YBS clients.
- Supporting State and local FFA and 4-H Programs. We have a FFA and 4-H community involvement grant program where clubs and chapters can apply for one of 20 $250 grants available each calendar year.
- Piloting YBS Educational program in one of our branch offices with the involvement of outside organizations.
- Membership in, and support of, local Young Farmer Groups/Clubs in our territory.
- Publishing of the Country Spirit magazine which offers various articles providing valuable information to YBS farmers.
- Ongoing contact with other farm groups participating in initiatives which will benefit YBS farmers.

Safety and Soundness of Program

Our YBS farmer program has established specific lending standards for clients who use the program. The program has also established lending limits for new loan extension under the program. If our credit quality should fall below minimum guidelines, the program calls for a board review of the program for changes or possible suspension. At this time, our credit quality is well above minimum guidelines outlined in the program.

FUNDS HELD PROGRAM

1st Farm Credit Services, ACA

1st Farm Credit Services, ACA (the Association) offers a Funds Held Program (Funds Held) that provides for customers to make advance payments on designated real estate and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents between the Association and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will be placed in Funds Held as of the date received and applied against the next installment or other related charges on the installment due date. Loan payments received after the loan has been billed will be applied directly to the installment due on the loan or other related charges. Funds received in excess of the billed amount or other related charges will be placed in Funds Held, unless the client has specified that the funds be applied as a special payment of principal. At any time, the client may request that existing Funds Held be applied as a special principal payment or interest payment on the related loan. When a loan installment comes due, amounts in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied to the payment first. Any excess funds will remain in the account. If the balance in Funds Held does not fully satisfy the entire payment, the client must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held (principal portion) may not exceed the unpaid principal balance of the loan and may be limited by prepayment restrictions. Funds Held is not a depository account and is not insured.

Interest Rate

Interest will accrue on Funds Held accounts at a simple rate two (2) percentage points below the interest rate charged on the related loan. The Association may change the interest rate paid from time to time and shall notify borrowers of such change in the manner deemed appropriate by the Association. Interest on Funds Held account balances (exclusive of funds applied directly to billed amounts) will accrue from the date of receipt of the funds until the date the funds are applied to the loan. Borrowers receive periodic statements of accounts, including Funds Held account balances, interest rates and amounts of interest credited to the account.

Withdrawals

Unlimited withdrawals per month are allowed for any eligible loan purpose. The minimum withdrawal is $500.

Association Options

In the event of default, death or if the Association discontinues the Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to regulations.

Questions: Please direct any questions regarding Funds Held to your local Farm Credit Services representative.