1st Farm Credit Services, ACA

Quarterly Report
September 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of 1st Farm Credit Services, ACA (the parent) and 1st Farm Credit Services, FLCA and 1st Farm Credit Services, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in 1st Farm Credit Services, ACA. To request free copies of the AgriBank and combined AgriBank and affiliated Associations' financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2014 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

According to the September 28, 2015 USDA Crop Progress and Condition Report, in Illinois, corn harvest was 30 percent complete; 17 percentage points higher than last year but behind the five year average of 34 percent. Corn condition was rated at 55 percent good to excellent. Corn mature reached 89 percent, compared to 77 percent last year.

Soybean harvest was 24 percent complete, compared to the five year average of 12 percent. Soybean condition was rated at 55 percent good to excellent. Soybeans turning color reached 90 percent, compared to 91 percent last year.

Temperature averaged 67 degrees, six degrees above normal at the end of the quarter. Topsoil moisture was 75 percent adequate or better and subsoil moisture was 77 percent adequate or better.

According to the USDA Illinois Crop Production Report, the forecasted corn yield per acre for Illinois is 173 bushels, down 27 bushels from 2014. Harvested area of corn is forecast at 11.8 million acres, down one percent from the previous year. Production is forecast at 2.02 billion bushels, 14 percent below the previous year.

Harvested area of soybeans, forecast at 10.08 million acres, is up three percent from the previous year. The Illinois soybean yield forecast at 54 bushels per acre, down two bushels from 2014. Production is forecast at 544 million bushels, a one percent decrease from last year's record production level.

Corn prices in Central Illinois at September 30, 2015 were $3.68 per bushel, down $0.30 per bushel from last quarter, yet up $0.86 per bushel compared to one year ago. Soybean prices for the same period were $8.68 per bushel, down $1.79 per bushel from last quarter, and down $0.18 per bushel compared to one year ago. Lower prices will continue to benefit our livestock producers through lower feed costs.

According to the September 1, 2015 Hogs and Pigs Report, in the United States the inventory of all hogs and pigs was 68.4 million head, up two percent from June 1 and up four percent from one year ago. The average pigs saved per litter was 10.39 for the June-August period, compared to 10.16 last year. Farrowings were 2.94 million head, down one percent from last year. The sows farrowed during this quarter represented 50 percent of the breeding herd. Farrowing intentions were 2.92 million sows during the September-November quarter, up four percent from the actual farrowings during the same period in 2014.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $4.9 billion at September 30, 2015, an increase of $156.1 million from December 31, 2014. The increase was primarily due to real estate loan growth offset by increased repayments on commercial loan balances.

Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2014. Adversely classified loans increased to 2.0% of the portfolio at September 30, 2015, from 1.5% of the portfolio at December 31, 2014. 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. At September 30, 2015, $362.6 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

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

As of:	**September 30 2015**	December 31 2014
Loans:		
Nonaccrual	**$28,015**	$24,929
Accruing restructured	**1,924**	2,182
Accruing loans 90 days or more past due	**3,592**	1,595
Total risk loans	**33,531**	28,706
Other property owned	**135**	188
Total risk assets	**$33,666**	$28,894
Total risk loans as a percentage of total loans	**0.7%**	0.6%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.5%
Total delinquencies as a percentage of total loans	**0.5%**	0.4%

Our risk assets have increased from December 31, 2014, but remain at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remains well within our established risk management guidelines.

Nonaccrual loans increased $3.1 million from December 31, 2014 primarily due to early signs of stress in the grain sector. Nonaccrual loans remained at an acceptable level at September 30, 2015 and 41.4% of our nonaccrual loans were current.

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Allowance for Loan Losses

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

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

As of:	**September 30 2015**	December 31 2014
Allowance as a percentage of:		
Loans	**0.4%**	0.3%
Nonaccrual loans	**64.2%**	63.6%
Total risk loans	**53.6%**	55.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2015.

RESULTS OF OPERATIONS

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

For the nine months ended September 30	2015	2014
Net income	**$67,301**	$65,517
Return on average assets	**1.8%**	1.8%
Return on average members' equity	**9.5%**	10.2%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

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

For the nine months ended September 30	2015	2014	Increase (decrease) in net income
Net interest income	**$89,693**	$84,484	**$5,209**
Provision for loan losses	**2,321**	2,171	**(150)**
Patronage income	**14,619**	16,534	**(1,915)**
Other income, net	**12,060**	12,631	**(571)**
Operating expenses	**45,106**	43,282	**(1,824)**
Provision for income taxes	**1,644**	2,679	**1,035**
Net income	**$67,301**	$65,517	**$1,784**

The following table quantifies changes in net interest income for the nine months ended September 30, 2015 compared to the same period in 2014 (in thousands):

	2015 vs 2014
Changes in volume	**$7,805**
Changes in interest rates	**(2,642)**
Changes in nonaccrual income and other	**46**
Net change	**$5,209**

The change in patronage income was primarily related to a decrease in patronage income received on loans in the AgriBank Asset Pool Program due to lower patronage rates compared to the prior year.

The change in operating expenses was primarily related to increased salaries and benefits and Farm Credit System Insurance Corporation (FCSIC) expense. FCSIC expense increased primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 12 basis points in 2014 to 13 basis points in 2015.

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

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures November 30, 2015, at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as the Association is a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at September 30, 2015 or December 31, 2014.

Total members’ equity increased $60.5 million from December 31, 2014 primarily due to net income for the period, which was partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a certain level for our permanent capital ratio, total surplus ratio and core surplus ratio. Refer to Note 7 in our 2014 Annual Report for a more complete description of these ratios. The following table summarizes the regulatory minimums and our actual results for the regulatory ratios:

As of	Regulatory Minimums	**September 30 2015**	December 31 2014
Permanent capital ratio	7.0%	**16.6%**	16.2%
Total surplus ratio	7.0%	**16.4%**	16.0%
Core surplus ratio	3.5%	**16.4%**	16.0%

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

CERTIFICATION

The undersigned have reviewed the September 30, 2015 Quarterly Report of 1st Farm Credit Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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

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

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

November 3, 2015

CONSOLIDATED STATEMENTS OF CONDITION

1st Farm Credit Services, ACA

(in thousands)

(Unaudited)

As of:	**September 30 2015**	December 31 2014
ASSETS		
Loans	**$4,943,471**	$4,787,390
Allowance for loan losses	**17,985**	15,847
Net loans	**4,925,486**	4,771,543
Investment in AgriBank, FCB	**122,087**	121,675
Investment securities	**143,123**	171,967
Accrued interest receivable	**56,895**	41,330
Other property owned	**135**	188
Other assets	**45,424**	48,049
Total assets	**$5,293,150**	$5,154,752
LIABILITIES		
Note payable to AgriBank, FCB	**$4,282,226**	$4,201,067
Accrued interest payable	**14,978**	13,808
Patronage distribution payable	**6,900**	9,000
Other liabilities	**14,138**	16,419
Total liabilities	**4,318,242**	4,240,294
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**9**	9
Capital stock and participation certificates	**10,015**	9,953
Unallocated surplus	**964,884**	904,496
Total members' equity	**974,908**	914,458
Total liabilities and members' equity	**$5,293,150**	$5,154,752

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

CONSOLIDATED STATEMENTS OF INCOME

1st Farm Credit Services, ACA
(in thousands)
(Unaudited)

For the period ended September 30	*Three Months Ended* **2015**	*Three Months Ended* 2014	*Nine Months Ended* **2015**	*Nine Months Ended* 2014
Interest income	**$45,103**	$42,176	**$132,956**	$123,801
Interest expense	**14,986**	13,357	**43,263**	39,317
Net interest income	**30,117**	28,819	**89,693**	84,484
Provision for loan losses	**338**	274	**2,321**	2,171
Net interest income after provision for loan losses	**29,779**	28,545	**87,372**	82,313
Other income				
Patronage income	**4,774**	5,463	**14,619**	16,534
Financially related services income	**5,955**	6,345	**7,021**	7,084
Fee income	**1,607**	1,845	**4,596**	4,990
Miscellaneous income, net	**115**	147	**443**	557
Total other income	**12,451**	13,800	**26,679**	29,165
Operating expenses				
Salaries and employee benefits	**9,962**	8,293	**29,849**	27,850
Other operating expenses	**5,171**	5,932	**15,257**	15,432
Total operating expenses	**15,133**	14,225	**45,106**	43,282
Income before income taxes	**27,097**	28,120	**68,945**	68,196
Provision for income taxes	**530**	359	**1,644**	2,679
Net income	**$26,567**	$27,761	**$67,301**	$65,517

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

1st Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2013	$9	$9,900	$822,955	$832,864
Net income	--	--	65,517	65,517
Unallocated surplus designated for patronage distributions	--	--	(6,615)	(6,615)
Capital stock and participation certificates issued	--	555	--	555
Capital stock and participation certificates retired	--	(526)	--	(526)
Balance at September 30, 2014	$9	$9,929	$881,857	$891,795
Balance at December 31, 2014	$9	$9,953	$904,496	$914,458
Net income	**--**	**--**	**67,301**	**67,301**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(6,913)**	**(6,913)**
Capital stock and participation certificates issued	**--**	**517**	**--**	**517**
Capital stock and participation certificates retired	**--**	**(455)**	**--**	**(455)**
Balance at September 30, 2015	**$9**	**$10,015**	**$964,884**	**$974,908**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

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

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

Recently Issued or Adopted Accounting Pronouncements

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

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**September 30, 2015**		December 31, 2014	
	Amount	%	Amount	%
Real estate	**$2,636,167**	**53.3%**	$2,517,451	52.6%
Commercial	**1,931,393**	**39.1%**	1,951,387	40.8%
Other	**375,911**	**7.6%**	318,552	6.6%
Total	**$4,943,471**	**100.0%**	$4,787,390	100.0%

We classify our loans into three categories primarily based on the authorities provided by the Farm Credit Administration regulations and to a lesser extent management purposes. The following listing details each loan category and provides a description of loan types within each category:

- Real estate primarily includes loans made under our FLCA lending authority for real estate mortgages.
- Commercial primarily includes loans made under our PCA lending authorities for production and intermediate term financing, processing and marketing, and agribusiness.
- Other is comprised primarily of communication and energy-related loans and purchased government guaranteed loans and bonds originated under our Mission Related Investment authority.

Delinquency

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

As of September 30, 2015	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	90 Days or More Past Due and Accruing
Real estate	**$2,377**	**$2,749**	**$5,126**	**$2,664,170**	**$2,669,296**	**$47**
Commercial	**4,428**	**12,975**	**17,403**	**1,936,346**	**1,953,749**	**1,202**
Other	**1,340**	**2,343**	**3,683**	**373,105**	**376,788**	**2,343**
Total	**$8,145**	**$18,067**	**$26,212**	**$4,973,621**	**$4,999,833**	**$3,592**

As of December 31, 2014	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	90 Days or More Past Due and Accruing
Real estate	$1,264	$2,897	$4,161	$2,533,809	$2,537,970	$449
Commercial	965	9,203	10,168	1,960,209	1,970,377	--
Other	3,118	1,146	4,264	315,455	319,719	1,146
Total	$5,347	$13,246	$18,593	$4,809,473	$4,828,066	$1,595

Risk Loans

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

As of:	**September 30 2015**	December 31 2014
Volume with specific reserves	**$9,352**	$8,926
Volume without specific reserves	**24,179**	19,780
Total risk loans	**$33,531**	$28,706
Total specific reserves	**$5,221**	$4,708
For the nine months ended September 30	**2015**	2014
Income on accrual risk loans	**$148**	$160
Income on nonaccrual loans	**611**	565
Total income on risk loans	**$759**	$725
Average risk loans	**$30,508**	$28,652

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at September 30, 2015.

Troubled Debt Restructurings (TDRs)

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 TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding TDRs that occurred during the nine months ended September 30 (in thousands):

	2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate	**$ --**	**$ --**	$2,168	$2,168
Commercial	**356**	**356**	1,140	1,140
Total	**$356**	**$356**	$3,308	$3,308

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The primary types of modification typically include extension of maturity.

We had TDRs of $14 thousand that defaulted during the nine months ended September 30, 2015, in which the modifications were within twelve months of the respective reporting period. TDRs with a payment default occurred in the commercial loan category. There were no TDRs that defaulted during the nine months ended September 30, 2014, in which the modifications were within twelve months of the respective reporting period.

The following table presents information regarding TDRs outstanding (in thousands):

As of:	**September 30 2015**	December 31 2014
Accrual status:		
Real estate	**$1,919**	$2,053
Commercial	**5**	129
Total TDRs in accrual status	**$1,924**	$2,182
Nonaccrual status:		
Real estate	**$2,668**	$2,785
Commercial	**9,928**	9,853
Total TDRs in nonaccrual status	**$12,596**	$12,638
Total TDRs	**$14,520**	$14,820

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $126 thousand at September 30, 2015.

Allowance for Loan Losses

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

Nine months ended September 30	**2015**	2014
Balance at beginning of period	**$15,847**	$13,587
Provision for loan losses	**2,321**	2,171
Loan recoveries	**429**	117
Loan charge-offs	**(612)**	(758)
Balance at end of period	**$17,985**	$15,117

The increase in allowance for loan losses was related to $2.3 million provision for loan losses recorded in the nine months ended 2015 primarily related to changes in loss estimates and specific reserves in the portfolio.

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $143.1 million at September 30, 2015 and $172.0 million at December 31, 2014. Our investment securities consisted of securities containing loans fully 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:	**September 30 2015**	December 31 2014
Amortized cost	**$143,123**	$171,967
Unrealized gains	**3,633**	4,308
Unrealized losses	**(273)**	(313)
Fair value	**$146,483**	$175,962

NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 5: 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 in our 2014 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2015 or December 31, 2014.

Non-Recurring Basis

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 September 30, 2015				**Nine months ended September 30, 2015**
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	**$ --**	**$485**	**$3,853**	**$4,338**	**($1,125)**
Other property owned	**--**	**--**	**140**	**140**	**6**

	As of December 31, 2014				Nine months ended September 30, 2014
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ --	$746	$3,683	$4,429	($583)
Other property owned	--	--	196	196	60

Valuation Techniques

Impaired 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. If the process uses independent appraisals and other market-based information, they fall under Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

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

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 3, 2015, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.