Badgerland Financial, ACA

Quarterly Report
March 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Badgerland Financial, ACA and its 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 2011 Annual Report for the year ended December 31, 2011.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect members' investment in Badgerland Financial, ACA. To request free copies of the AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at 315 Broadway, Post Office Box 69, Baraboo, Wisconsin 53913, (800) 356-2197, or by e-mail to Greg.Rufsvold@badgerlandfinancial.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail to agribankmn@agribank.com. The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

Loan Portfolio

Loans totaled $2.7 billion at March 31, 2012, a $55.3 million increase from December 31, 2011.

Accrual commercial loan volume has decreased by $9.8 million compared to December 31, 2011. This is primarily due to operating loan repayments resulting from strong profits in cash grain operations. Dairy producers are seeing tighter margins in 2012 which will slow down the repayment of operating and intermediate loans and may result in more use of credit for capital purchases.

Accrual mortgage loan volume has increased $68.5 million compared to December 31, 2011. The increase is due to strong marketing efforts which include carryover mortgage volume from a 2011 new business promotion. In addition, the real estate market was fairly strong in 2011 and some of the loans resulting from real estate purchases closed in the first three months of 2012. There has also been some increase in loan activity in capital markets since December 31, 2011.

Agricultural and Economic Conditions

The late winter and early spring has seen above normal temperatures. Overall, conditions for field work have been good and planting is at or slightly ahead of normal. However, recent heavy rainfalls are delaying further progress. In spite of minimal snow cover, the alfalfa crop appears to have come through the winter in good shape and is several weeks ahead of where it was a year ago. Most commodity prices remain strong as of early May; however, the markets continue to experience high levels of volatility. Current cash prices for corn and soybeans are approximately $6.01/bu and $14.15/bu, respectively. Futures prices for new crop corn and soybeans are approximately $5.26/bu and $13.63/bu, respectively. Corn and soybeans will compete for acreage in 2012 with an increase in corn acreage expected. Strong grain prices should allow for decent margins for grain producers, although input costs remain at high levels. The average class III milk price for the first three months of 2012 was $16.28/cwt compared to $16.63/cwt for the same period last year. Calendar year 2011 averaged $18.37/cwt. The milk futures for the balance of 2012 (Apr-Dec) currently average $15.68/cwt (all prices are before premiums). Unless there is significant improvement in milk prices as the year progresses, dairy producers can expect tighter margins due to input costs remaining at high levels. Over the past couple of years, there has been some softening of values of recreational land. There is some evidence that the softening values plus an improving economy are starting to increase the interest in recreational parcels. The historically strong grain prices continue to result in strong demand for cropland and values continue to increase. Some improvement in the overall economy may provide opportunities for additional non-farm income; however, the improvement continues to be modest.

Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2011. Adversely classified loans have decreased to 3.3% of the portfolio at March 31, 2012, from 3.7% of the portfolio at December 31, 2011. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At March 31, 2012, $86.1 million of our loans were, to some level, guaranteed under these governmental programs.

Risk Assets

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

As of:	**March 31 2012**	December 31 2011
Loans:		
Accruing restructured	**$ --**	$ --
Accruing loans 90 days or more past due	**210**	514
Nonaccrual	**17,237**	20,556
Total risk loans	**17,447**	21,070
Other property owned	**4,854**	5,270
Total risk assets	**$22,301**	$26,340
Risk loans as a percentage of total loans	**0.7%**	0.8%
Total delinquencies as a percentage of total loans	**0.6%**	0.7%

Our risk assets have decreased from December 31, 2011 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

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.

The decrease in nonaccrual loans was primarily due to loan payments during the three months ended March 31, 2012 and upgrades of certain loans to accrual status. Nonaccrual loans remained at an acceptable level at March 31, 2012 and represented 0.7% of our total portfolio. At March 31, 2012, 73.7% of our nonaccrual loans were current.

Allowance for Loan Losses

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

Comparative allowance coverage of various loan categories follows:

Allowance as a percentage of:	**March 31 2012**	December 31 2011
Loans	**0.2%**	0.3%
Nonaccrual loans	**29.3%**	32.2%
Total risk loans	**29.0%**	31.4%

Allowance for loan loss decreased due to overall credit quality improvements in our portfolio. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2012.

Results of Operations

Net income for the three months ended March 31, 2012 totaled $19.6 million compared to $16.5 million for the same period in 2011. The following table illustrates profitability information:

As of March 31	**2012**	2011
Return on average assets	**2.8%**	2.4%
Return on average members' equity	**14.1%**	13.6%

The following table summarizes the changes in components of net income for the three months ended March 31, 2012 compared to the same period in 2011 (in thousands):

Increase (decrease) in net income	**2012 vs 2011**
Net interest income	**$62**
Provision for loan losses	**1,901**
Patronage income	**696**
Other income	**204**
Operating expenses	**(269)**
Provision for income taxes	**487**
Total change in net income	**$3,081**

Net interest income was $21.4 million for the three months ended March 31, 2012. The following table quantifies changes in net interest income for the three months ended March 31, 2012 compared to the same period in 2011 (in thousands):

Change in net interest income	2012 vs 2011
Changes in volume	**($325)**
Changes in rates	**163**
Changes in nonaccrual income and other	**224**
Net change	**$62**

The change in the provision for loan losses was related to overall credit quality improvements in our portfolio which resulted in a reversal of provision during the three months ended March 31, 2012.

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher patronage rate compared to the prior year. Additionally, patronage income was recorded related to our AgDirect, LLP investment for the first time during the three months ended March 31, 2012.

The change in other income was primarily related to higher financially related services income during the three months ended March 31, 2012 compared to the same period last year.

The change in operating expenses was primarily related to increases in salaries and benefits resulting from normal annual merit increases as well as hiring of new staff positions. Additionally, the association has experienced normal increases in the cost of various vendored services.

The change in provision for income taxes is related to lower income in our taxable entity primarily attributable to decreased net interest income in the commercial loan portfolio.

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

Funding, Liquidity, and Capital

We borrow from AgriBank in the form of a line of credit. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased $17.8 million from December 31, 2011 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7%, and a core surplus ratio of at least 3.5%. Refer to Note 7 in our 2011 Annual Report for a more complete description of these ratios. As of March 31, 2012, the ratios were as follows:

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

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

Certification

The undersigned certify they have reviewed Badgerland Financial, ACA's March 31, 2012, Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jerome Laufenberg
Chairperson of the Board
Badgerland Financial, ACA

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

May 3, 2012

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(Dollars in thousands)
(Unaudited)

	March 31 2012	December 31 2011
ASSETS		
Loans	**$2,656,188**	$2,600,884
Allowance for loan losses	**5,059**	6,621
Net loans	**2,651,129**	2,594,263
Investment in AgriBank, FCB	**82,903**	83,317
Accrued interest receivable	**13,862**	14,256
Premises and equipment, net	**8,830**	8,586
Other property owned	**4,854**	5,270
Other assets	**21,425**	28,154
Total assets	**$2,783,003**	$2,733,846
LIABILITIES		
Note payable to AgriBank, FCB	**$2,179,511**	$2,144,163
Accrued interest payable	**7,912**	8,160
Net deferred income tax liability	**2,205**	2,477
Patronage distribution payable	**1,875**	9,000
Other liabilities	**25,261**	21,614
Total liabilities	**2,216,764**	2,185,414
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Capital stock and participation certificates	**7,610**	7,548
Unallocated surplus	**558,629**	540,884
Total members' equity	**566,239**	548,432
Total liabilities and members' equity	**$2,783,003**	$2,733,846

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA
(Dollars in thousands)
(Unaudited)

Three months ended March 31	**2012**	2011
Interest income	**$29,311**	$29,872
Interest expense	**7,912**	8,535
Net interest income	**21,399**	21,337
(Reversal of) provision for loan losses	**(1,584)**	317
Net interest income after (reversal of) provision for loan losses	**22,983**	21,020
Other income		
Patronage income	**4,249**	3,553
Financially related services income	**2,605**	2,340
Fee income	**671**	690
Miscellaneous income, net	**159**	201
Total other income	**7,684**	6,784
Operating expenses		
Salaries and employee benefits	**6,388**	6,034
Other operating	**3,829**	3,914
Total operating expenses	**10,217**	9,948
Income before income taxes	**20,450**	17,856
Provision for income taxes	**837**	1,324
Net income	**$19,613**	$16,532

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Badgerland Financial, ACA
(Dollars in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2010	$7,362	$469,995	$477,357
Net income	--	16,532	16,532
Unallocated surplus designated for patronage distributions	--	(1,669)	(1,669)
Capital stock/participation certificates issued	156	--	156
Capital stock/participation certificates retired	(148)	--	(148)
Balance at March 31, 2011	$7,370	$484,858	$492,228
Balance at December 31, 2011	**$7,548**	**$540,884**	**$548,432**
Net income	**--**	**19,613**	**19,613**
Unallocated surplus designated for patronage distributions	**--**	**(1,868)**	**(1,868)**
Capital stock/participation certificates issued	**223**	**--**	**223**
Capital stock/participation certificates retired	**(161)**	**--**	**(161)**
Balance at March 31, 2012	**$7,610**	**$558,629**	**$566,239**

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 generally accepted accounting principles in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the year ended December 31, 2012. 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 2011 Annual Report for the year ended December 31, 2011.

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

Recently Issued or Adopted Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Compensation – Retirement Benefits – Multiemployer Plans.” The guidance is intended to provide more information about an employer’s financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans in which the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in additional disclosures.

In June 2011, the FASB issued guidance entitled, “Presentation of Comprehensive Income.” The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement — referred to as the Statement of Comprehensive Income — or in two separate, but consecutive, statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts — net income and other comprehensive income, would need to be displayed under either alternative. The statement(s) would need to be presented with equal prominence as the other primary financial statements. The guidance is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of the guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in changes to our financial statement presentation.

In May 2011, FASB issued guidance entitled, “Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).” The guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS as more fully outlined in the 2011 Annual Report. The amendments are to be applied prospectively. For non-public entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations, but will result in additional disclosures.

In April 2011, the FASB issued guidance entitled, “A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” The guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

NOTE 2: Loans and Allowance for Loan Losses

Loans consisted of the following (dollars in thousands):

	March 31, 2012		December 31, 2011	
	Amount	**%**	Amount	%
Real estate mortgage	**$1,455,442**	**54.8%**	$1,410,135	54.2%
Production and intermediate term	**810,579**	**30.5%**	846,997	32.6%
Agribusiness	**287,203**	**10.8%**	234,227	9.0%
Rural residential real estate	**15,957**	**0.6%**	16,508	0.6%
Other	**87,007**	**3.3%**	93,017	3.6%
Total	**$2,656,188**	**100.0%**	$2,600,884	100.0%

Delinquency

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

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
As of March 31, 2012						
Real estate mortgage	**$4,876**	**$1,074**	**$5,950**	**$1,457,138**	**$1,463,088**	**$ --**
Production and intermediate term	**5,895**	**1,522**	**7,417**	**808,515**	**815,932**	**210**
Agribusiness	**955**	**--**	**955**	**286,827**	**287,782**	**--**
Rural residential real estate	**375**	**--**	**375**	**15,622**	**15,997**	**--**
Other	**486**	**1,341**	**1,827**	**85,424**	**87,251**	**--**
Total	**$12,587**	**$3,937**	**$16,524**	**$2,653,526**	**$2,670,050**	**$210**
As of December 31, 2011						
Real estate mortgage	$3,904	$5,336	$9,240	$1,408,040	$1,417,280	$ --
Production and intermediate term	4,992	2,381	7,373	845,994	853,367	514
Agribusiness	202	49	251	234,292	234,543	--
Rural residential real estate	388	--	388	16,162	16,550	--
Other	508	1,368	1,876	91,524	93,400	--
Total	$9,994	$9,134	$19,128	$2,596,012	$2,615,140	$514

Risk Loans

The following table presents information concerning risk loans (in thousands):

As of:	**March 31 2012**	December 31 2011
Volume with specific reserves	**$4,413**	$5,493
Volume without specific reserves	**13,034**	15,577
Total risk loans	**$17,447**	$21,070
Total specific reserves	**$2,423**	$3,618

Three months ended March 31	**2012**	2011
Income on accrual risk loans	**$7**	$36
Income on nonaccrual loans	**357**	133
Total income on risk loans	**$364**	$169
Average risk loans	**$18,956**	$34,519

The decrease in risk loans was primarily due to loan repayments and upgrades of certain loans to accrual status.

Troubled Debt Restructurings

A restructuring of a loan constitutes a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Concessions vary by program and borrower. Concessions may include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, these loans are included within our risk loans. All risk loans are analyzed within our allowance for loan losses. We record specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding troubled debt restructurings that occurred during the three months ended March 31, 2012 (in thousands):

	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Real estate mortgage	**$205**	**$205**
Production and intermediate term	**106**	**106**
Total	**$311**	**$311**

Pre-modification represents the recorded investment just prior to restructuring and post-modification 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 write-down of the investment.

Our production and intermediate term loans had $112 thousand of troubled debt restructurings that occurred within the previous 12 months for which there was a subsequent payment default during the three months ended March 31, 2012. No other troubled debt restructurings that occurred within the previous 12 months had a subsequent payment default during the three months ended March 31, 2012.

Troubled debt restructurings outstanding at March 31, 2012 totaled $596 thousand, of which all were in nonaccrual status. We have no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at March 31, 2012.

Allowance for Loan Losses

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

Three months ended March 31	**2012**	2011
Balance at beginning of year	**$6,621**	$13,081
(Reversal of) provision for loan losses	**(1,584)**	317
Loan recoveries	**113**	3
Loan charge-offs	**(91)**	(717)
Balance at end of period	**$5,059**	$12,684

The decrease in allowance for loan losses is related improved collateralization within the portfolio and a decrease in industry specific general allowances as a result of improvements in the economic outlook in the dairy and biofuels segments of our portfolio during 2011. Additionally, improvement in the overall credit quality of our portfolio resulted in a $1.6 million reversal of provision during the three months ended March 31, 2012.

Equity Investment

In addition to loans, we hold an equity investment. This investment represents our stake in a venture capital equity fund focused on the needs of rural start-up companies. Our commitment to this venture capital equity investment is over a period of ten years. Our investment totaled $2.4 million at March 31, 2012 and $1.9 million at December 31, 2011. The investment is included in “Other assets” on the Consolidated Statements of Condition.

NOTE 3: Contingencies and Commitments

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

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

NOTE 4: Fair Value Measurements

The FASB guidance on “Fair Value Measurement” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 12 in our 2011 Annual Report for a more complete description.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2012 or December 31, 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 was as follows (in thousands):

	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
March 31, 2012					
Loans	**$ --**	**$961**	**$1,129**	**$2,090**	**$1,195**
Other property owned	**--**	**--**	**5,048**	**5,048**	**(16)**
December 31, 2011					
Loans	$ --	$1,015	$953	$1,968	$2,030
Other property owned	--	--	5,481	5,481	(26)

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

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

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

NOTE 5: Subsequent Events

We have evaluated subsequent events through May 3, 2012, 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.