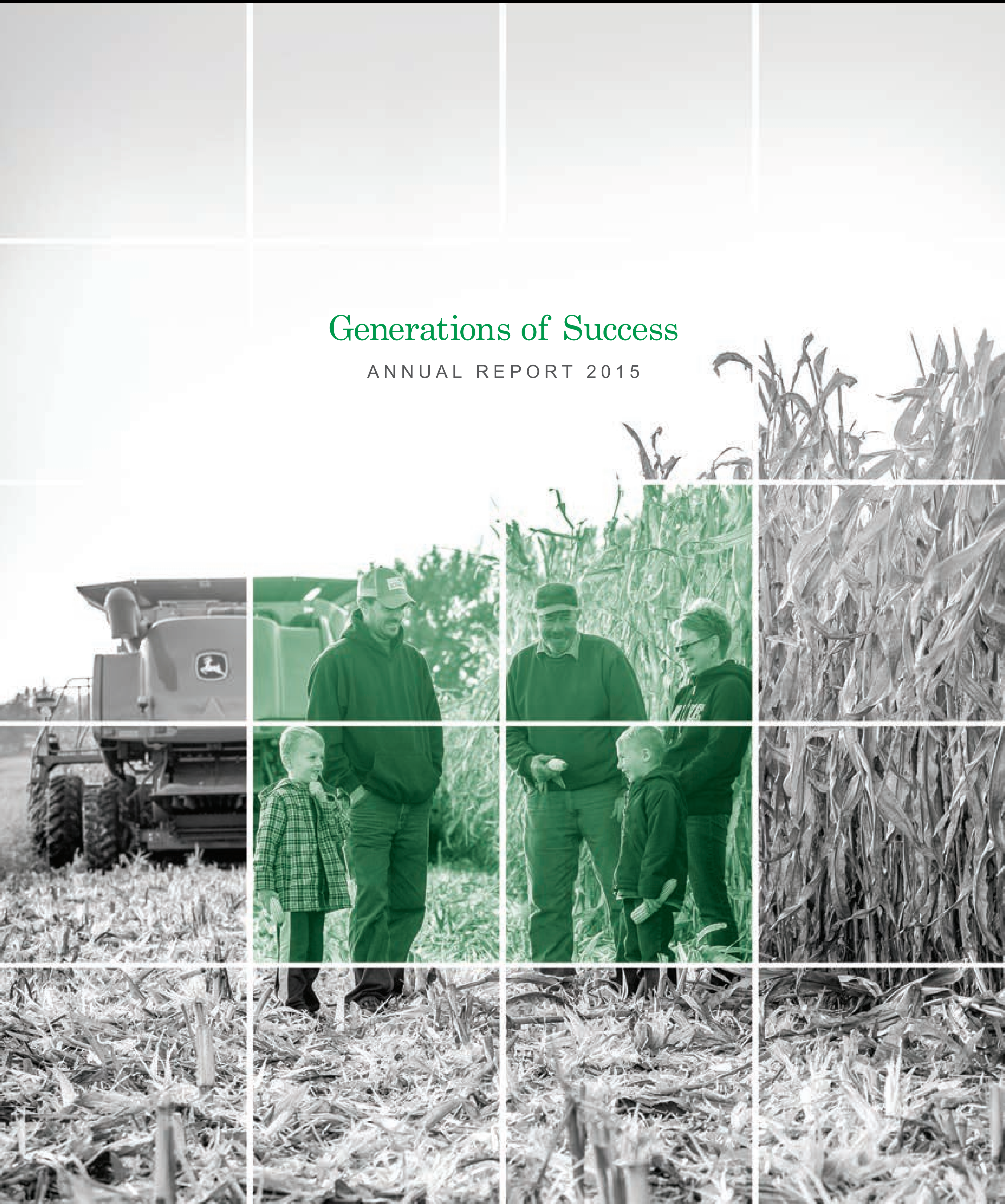
AgStar Financial Services, ACA

Generations of Success

ANNUAL REPORT 2015



Generations of Success

You are the heart of agriculture; part of the generations of hardworking men and women committed to feeding the world and building a better future.

You are the grandparents, parents, sons and daughters; the client-stockholders, businesses and communities we serve. You are the families that provide for all families.

At AgStar Financial Services, our business is rooted in the tradition of helping you achieve success. For decades we have committed our financial services to the stability, security and growth of families in rural America.

Now and forever, you can count on AgStar for generations of success.

Generations of Farm Credit

100 YEARS OF SERVING RURAL AMERICA

Freedom, diversity, ingenuity, work ethic and entrepreneurship have made America a country of constant change and innovation. Nowhere is that more evident than on farms and rural communities.

American farmers today produce yields that would have seemed impossible just a generation ago. Farmers have developed new techniques and technologies to advance both productivity and sustainability. Thanks to generations of advances and innovations, today rural America provides the most abundant, safe and affordable food supply on earth.

The Farm Credit System grew out of the Federal Farm Loan Act, signed into law by President Woodrow Wilson on July 17, 1916. AgStar is proud to be part of Farm Credit. In 2016 we'll join in celebrating one hundred years of its support for agriculture, while looking forward to the next century of growth.

ROGER AND BEVERLY PETERSON

Working with Farm Credit from Day One

For Roger and Bev Peterson, The Farm Credit System has been a trusted business partner since their first day in operation. Roger's first loan was with their local Production Credit Association, a predecessor of what AgStar is today. Later they together obtained loans with Federal Land Bank Association and Farm Credit Services, and today they are with AgStar.

Both Roger and Bev grew up on dairy farms near River Falls, Wisconsin. Today their children — Brad, Michelle and Kevin — farm with them, building another generation of success. Their family farm has more than 300 cows with a herd average of 28,200 lbs. of milk and grows more than 1,700 acres of corn, soybean and alfalfa hay. The family also sells Holstein steers and does custom work for many neighbors.

AGSTAR'S MISSION: **Enhancing Life in Agriculture and Rural America**

Helping Farmers

Position Their Operations in Challenging Grain Markets

AgStar Shares Strategies for Managing Volatility and Compressed Margins

Along with financial services, generations of farmers and agribusiness operators have looked to us for expert business advice. So in 2015, when AgStar recognized the signs of an impending down cycle in the grain segment, we used what we learned serving swine, dairy and ethanol clients during similar adverse markets to create tools and resources to share with grain farmers.

One of the biggest focuses was maintaining benchmarks for things like cost-per-acre and break-even points to give our clients a frame of reference to evaluate strengths and weaknesses in their own operations.

Over the next three years, we will help clients answer four big questions:

- Will low margins lead to opportunities for your operation?
- Are you well positioned to sustain your operation through compressed margins?
- Are you able to preserve equity?
- Are you near retirement or unable to remain competitive?

In 2015, AgStar held a webinar series called Managing Through Challenging Times and provided opportunities to make our information and expertise accessible to as many farmers as possible. The webinar series is available for playback at AgStar.com.

Helping People

Make Themselves at Home in Rural America

Photo Credit: Worthington Daily Globe

AgStar Mortgages Build Rural Communities

In America, home is where the heart is, and for many that's in the wide open spaces of rural America and small communities. That's why AgStar has home mortgage services that offer unique long-term, fixed-rate loan options tailored to rural homes and properties. We also offer affordable options for structures common in rural America that traditional lenders are unable to finance.

In 2015, Melanie Post discovered just how much AgStar Home Mortgage Services (HMS) supports rural American homeowners when she won AgStar's *Mapping Your Dream Sweepstakes*. Melanie will put her $20,000 prize toward improving her home on a farm just south of Lakefield, Minnesota, where she lives with husband, Brian, and three children: Zach, Tanner and Maggie.

Extending Our Reach in Equipment Financing

AgStar Joins AgDirect to Give Equipment Buyers Options within Dealerships

Thanks to a new partnership with AgDirect, financing from AgStar is more easily available to a wider group of equipment buyers. AgDirect is a point of purchase equipment finance program led and managed by Farm Credit Services of America.

AgDirect offers buyers access to credit from a wide variety of lending sources that now includes AgStar. Clients are able to speak directly to their relationship manager about the great financing options, using a robust technology platform that can move from application to close in minutes.

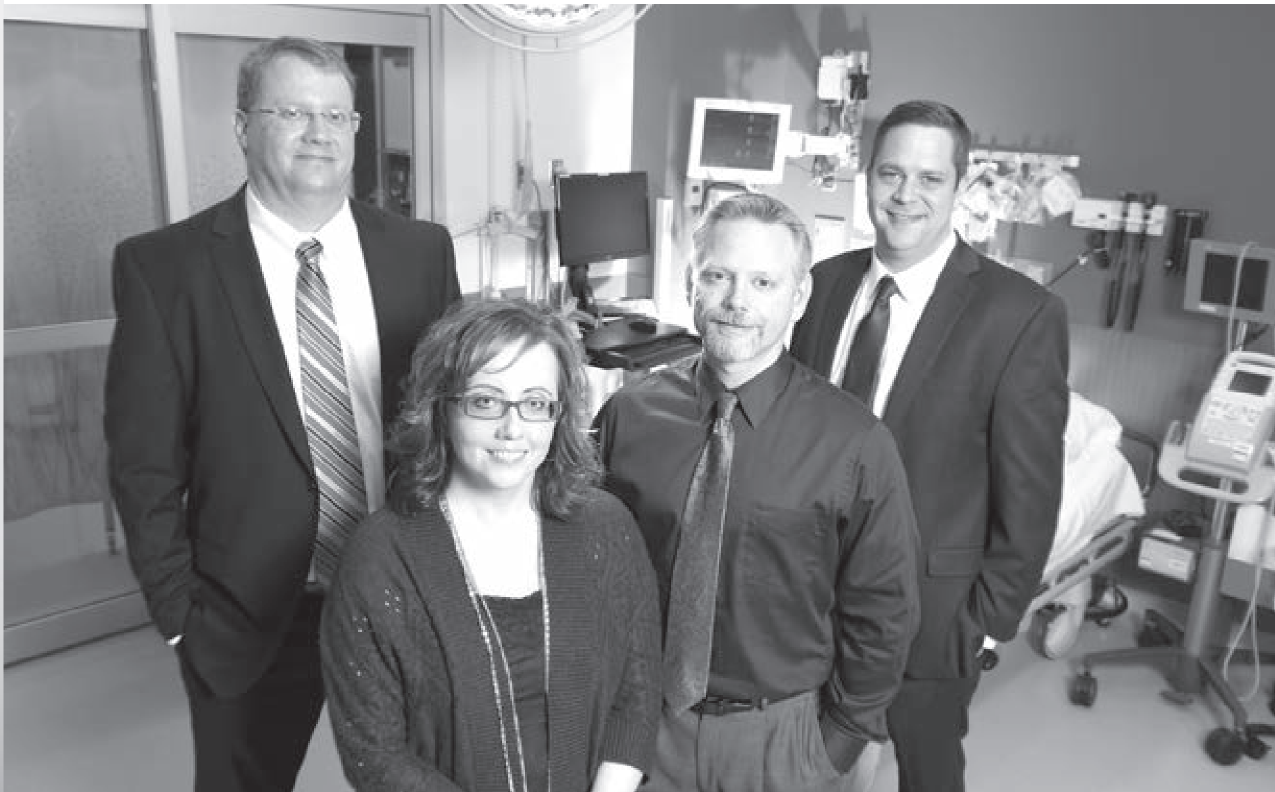


Partnering for the Greater Good

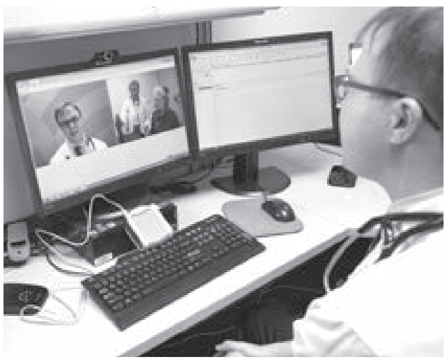
AgStar's Rural Capital Network Builds Small Communities

Hospitals and nursing homes are an essential part of the rural communities they serve. They drive community revitalization, specialize in exceptional patient care and offer employment opportunities. By providing both construction and permanent financing — including long-term fixed-rates — AgStar offers rural healthcare and aging services facilities affordable financing options that might not otherwise be possible. With specialized industry expertise, our team works with community and industry leaders, non-profit organizations and local financial institutions to keep rural communities thriving.

These highlighted investments completed in 2015 illustrate our commitment to rural America.



Mercy Hospital Moose Lake



The community of Moose Lake, Minnesota (population about 2,700), has an enhanced critical access hospital thanks in part to a partnership that included AgStar.

The $38 million project created a new, two-story addition. The 27-month renovation and addition focused on patient-centered improvements, including enhanced technology, and an expanded capacity that will help ensure that Moose Lake and its surrounding small communities continue to have access to high-quality health care well into the future.

Construction funding was provided by AgStar, CoBank and other local partners in the amount of $38 million. AgStar also partnered with CoBank and the U.S. Department of Agriculture (USDA) to provide post-construction long-term financing.

Glenhaven Rehabilitation & Skilled Nursing

When fire destroyed a nearly completed addition of Glenhaven Rehabilitation & Skilled Nursing in Glenwood City, Wisconsin, there were moments of doubt about the future of the project.

But the fire couldn't burn away the underlying motivations for the addition: to better serve current and future residents. So, with the help of AgStar's Rural Capital Network, the Glenhaven addition rose again from the ashes.

AgStar, along with CoBank and other community financers, worked with Glenhaven on financing from the project's start. AgStar quickly adjusted Glenhaven's financing package to accommodate the new post-fire schedule and budget. We also provided guidance along the way based on experience with past projects that endured similar setbacks.

AgStar also boosted the recovery capital campaign by contributing $10,000 from the AgStar Fund for Rural America in January 2014. The fire cost the project about a year, but in April 2015, residents were finally able to move into the new addition.

AgStar's Emerging Agribusinesses Off to a Solid Start

AgStar's Emerging Agribusiness Lending Program provides flexible financing options for emerging agricultural producers. It is a comprehensive network tied together by formalized partnerships that leverages our leadership in providing capital for land and other technical resources.

We believe that diversity is a core strength of America in general and agriculture in particular. Helping people with diverse backgrounds and interests use their work ethic, innovation and ideas to start agribusinesses strengthens the industry and economy as a whole. It also helps more people tap into the power of agriculture to support themselves and their families.

The program's clients also diversify our overall stockholder profile, making it a stronger company and brand. AgStar clients' products can be found in markets and restaurants throughout Minnesota.

EMERGING AGRIBUSINESS INITIATIVES IN 2015

Invested $19,000 in 13 different events to expand agricultural outreach to new immigrant farmers and broaden the set of agricultural products available in Minnesota and Wisconsin. Nine of these are new events for AgStar.

Provided $27,000 in funding for five key organizations in support of nontraditional agriculture.

Closed 27 loans to Emerging Agribusiness Lending clients totaling $231,000, marking a large increase over previous years. Among the recipients were Hmong, Somalian, Latino, African American and urban farmer clients.

Contributing to the Strength of Our Communities

AgStar Gives Back

Giving of our time and treasures elevates the quality of life for everyone in the communities we serve. It also helps AgStar team members experience the joy and satisfaction that come from helping those in need and living our mission of enhancing life in agriculture and rural America.

In 2001, AgStar created its Fund for Rural America. Since then, we have donated almost $6 million to organizations in rural communities that work to improve quality of life through education, technology and the environment.

AgStar Funds Land Inventory Project

A $50,000 grant from the AgStar Fund for Rural America to Community and Economic Development Associates (CEDA) was given to benefit emerging crop producing farmers who face land access issues.

Historically high land values have made it nearly impossible to enter crop production as a beginning business operation. AgStar's donation lowers that hurdle by helping CEDA make an online database of plots of land between one and fifty acres throughout Minnesota that are suitable and available for potential lease or purchase.

Along with the land inventory, CEDA can now provide other tools to help growers secure land and develop farms, such as financing and technical assistance.

AgStar Funds Water Quality Initiatives

A $30,000 grant from the AgStar Fund for Rural America was given to help develop grassroots solutions to water quality issues at the local level, including consideration of both sustainability and on-farm profitability.

AgStar awarded the grant to the Minnesota Working Lands Conservation Partnership (MWLCP) in an effort to help improve profitability, productivity and environmental outcomes for farmers and communities in three to five key watersheds. This partnership puts farmers at the forefront to drive positive change in the food and agriculture system.

AgStar Sponsors "Let's Kick Hunger Day" at Mall of America

In January 2015, AgStar again helped sponsor the sixth annual "Let's Kick Hunger Day." This day-long radiothon event at Mall of America raised funds to support Twin Cities-based Second Harvest Heartland, the upper Midwest's largest hunger relief organization that works to collect, warehouse and distribute food to those in need.

This year, the event raised $238,453 for the organization. In addition to the sponsorship, the AgStar Fund also matched $451 of AgStar team member donations dollar-for-dollar, totaling $902.

Helping Farmers Harvest Bumper Crops of Business Knowledge

AgStar Edge Revs Up Education Opportunities

We heard from you that educational seminars and workshops are rated one of the most important tools to help you succeed. The AgStar Edge Center for Education, Development, Growth and Expertise offers many resources and opportunities to help farmers and agribusiness professionals continuously add to their knowledge and expertise in many areas critical to today's agriculture. Through classes, webinars, online tools, workshops and other events, we provide clients with objective, practical knowledge that allows them to reduce risk and grow their operation. Whether on the farm or online, AgStar's industry insights and professional guidance give our clients a competitive edge, helping them make better decisions they can be confident in.

Annie's Project

In 2015, AgStar Edge embraced Annie's Project, a program developed to strengthen women's roles on the farm through coaching, counseling, connecting and collaborating. AgStar hosted its first ever Annie's Project workshop to help women develop skills and knowledge that benefit their family farms and connect with fellow farm women. The program focuses on providing knowledge in managing risk in five key areas: financial, human resources, legal, production, and price and marketing. The Annie's Project program also facilitates an environment of learning from one another while creating valuable support networks.

ANNIE'S PROJECT
EMPOWERING WOMEN IN AGRICULTURE

Techno*ledge* Conference

AgStar held its first Techno*ledge* conference in 2015 to help participants learn about and gain access to some of the newest technology, as well as get a glimpse of advances on the horizon. Speakers included experts on using technology in swine manure management, global marketing, farm robotics, precision farming and drones. Participants gained valuable insights that helped inform important technology decisions back on their farms.

Empowering Top Talent to Better Serve Clients

AgStar's Culture Builds Business

At AgStar we work hard to create a culture where team members feel respected, valued and find their work personally rewarding. Engaged team members deliver exceptional customer service. For the fifth consecutive year, AgStar was named a Top Workplace in Minnesota by the *Star Tribune*. Additionally, our Diversity and Inclusion Council helps AgStar continue to embrace and encourage the business-building power of diversity.

AgStar Products & Services

LOANS

- Operating Loans
- Equipment Loans
- Real Estate Loans
- Starter Loans for young, beginning and emerging market farmers

LEASING

- Equipment and Machinery Leases
- Truck and Trailer Leases
- Vehicle Leases
- Building and Facility Leases

INSURANCE

- Crop Hail Insurance
- Multi-Peril Crop Insurance
- Specialty Crop Insurance
- Crop Revenue Insurance
- Life Insurance

HOME MORTGAGES

- Home Loans
- Construction Loans
- Hobby Farm Loans
- Manufactured Housing Loans
- Home Site Loans
- Recreational Land Loans
- Home Renovation Loans

BUSINESS SERVICES

- Fleet Services
- Appraisal Services
- Cash Management Services
- AgStar Edge
- Margin Manager
- Internet Banking
- Remote Deposit Capture

CONSULTING SERVICES

- Financial Management
- Benchmarking
- Succession Planning

Bridging the Gap between Credit and Capital

AgStar Participates in Rural Business Investment Company

Rural businesses have a new source of equity investments thanks to a partnership that includes AgStar, the USDA and eight other members of the Farm Credit System.

Under a USDA initiative unveiled in 2014, AgStar, other Farm Credits and Advantage Capital came together to create a Rural Business Investment Company (RBIC), a $154.5 million investment fund that provides capital to small businesses in rural America. Advantage Capital, a leading growth capital and small business finance firm, manages the funds.

The funds are used to help enterprises access the capital they need to keep and create jobs and provide economic benefits for all of rural America. Through 2015, AgStar has invested $4.2 million in the RBIC. This investment has provided five agricultural businesses from Iowa to California across a number of industries with the needed capital to grow their businesses.

Business Units

AgStar's **Client Solutions Team** delivers guidance, insight and counseling to support our array of services including loans and leases, crop insurance and consulting to over 14,400 clients and producers. Depending on the client's specific goals and unique needs, our team collaborates within the organization to bring specialized knowledge and expertise. From grain to livestock to renewable fuels and emerging markets, our team possesses extensive knowledge in their areas of expertise, providing financial services and counseling to commercial producers, agribusinesses and processors.

Our consulting team provides business advice and professional services such as financial management and succession planning. Services are provided across many commodities with particular expertise in the swine, dairy and cash grain industry segments. Other areas include beef, bio energy, equine, logging and recreational land.

Our **Home Mortgage Services** team focuses on offering home financing options for clients in rural areas or communities. The focal point of this segment is mortgages to buy, build or refinance residences or acreages. We also serve eligible clients wishing to purchase rural real estate for recreational use, such as hunting and sporting.

The **Capital Markets** team focuses on relationships with commercial banks, Farm Credit Institutions and other lending partners in buying loan participations and syndications. This specialized team provides a national marketing vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings and market intelligence to the organization.

Agri-Access® (www.Agri-Access.com) operates as a unit of AgStar Financial Services, ACA and is a correspondent lender primarily focused on purchasing participations in agricultural real estate loans, rural home loans and leases across the U.S. Agri-Access brings diversification to AgStar's portfolio. Agri-Access also services agricultural loans for the institutional investors. The main Agri-Access contact office is located in Des Moines, Iowa. We also have contacts in Meridian, Idaho, and Canyon, Texas.

The **Rural Capital Network** team is devoted to supporting community and economic development, infrastructure needs, revitalization projects and emerging markets in rural America. AgStar Rural Capital Network invests in projects through the purchase of bonds issued by local communities, organizations or businesses. In addition, this team partners with other Farm Credit associations and local community banks focusing on investing in critical access hospitals, assisted-living facilities, rural multi-family rental housing, business expansions, etc.

To Our Stockholders

No American industry has more family-run businesses than agriculture. Not only is farming one of the original family businesses dating back centuries, it has a long tradition of multi-generational family ownership. Since 1916, AgStar has been honored to stand with our client families through generations of good times and challenging times.

AgStar and the Farm Credit System Turn 100

When it comes to supporting ag for generations, as part of the Farm Credit System, we at AgStar speak from experience. In 2016, Farm Credit will celebrate its 100th anniversary.

Even though it's about to be a centenarian, Farm Credit stays forever young thanks to progressive, forward-focused policies, practices and new ideas like finding better ways to serve the growing diversity in agriculture. In 2015, our Emerging Agribusiness Lending Program recorded another excellent year in our efforts to encourage diversity in farmers, agribusiness owners and products. Our AgStar Edge programming also rolled out more opportunities for women to build and enhance skills that will benefit their family farms.

Helping Farmers Find Opportunities within Challenges

Serving generations of farmers means adapting to changing times and markets. Last year, AgStar developed a program to help farmers create strategies for managing through the volatility and compressed margins of the grain market. We took our tools and expertise on the road to ensure many farmers had the opportunity to learn firsthand from our team.

Leadership

Most of AgStar's board members are producers who, like the client-stockholders who elect them, focus on creating strength and prosperity today with an eye toward passing it on to future generations. Our board members feel an obligation to serve the heart of agriculture by creating smart, future-focused policies and directives for the executive team to carry out. Guided by the board's wisdom and faithful representation of client-stockholders, AgStar works toward *Enhancing Life in Agriculture and Rural America* today and for generations to come.

Board of Directors

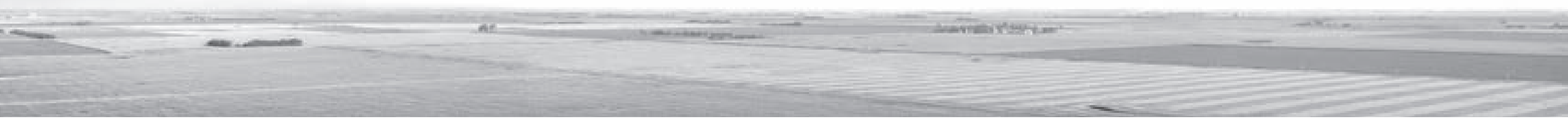
Front left to right: David Kretzschmar, Gregory Nelson, Kaye Compart, Dale Holmgren, Theresa (Ann) Broome, Rick Sommers

Back left to right: Joyce Fernando, Kevin Koppendrayer, Lawrence Romuald (term expired 2015), Steven Johnson, Terry Ebeling, Larry Fischer, Spencer Enninga, David Bollman, Wesley Beck, William McCue, Eunice (Eunie) Biel

Executive Committee

Front left to right: Jodie Hermer, Jase Wagner, Rodney Hebrink, Mark Greenwood

Back left to right: Joseph Deufel, Tim Tracy, John Hemstock, Paul Kohls, John Monson, Wick Manley



RODNEY HEBRINK
President and CEO
AgStar Financial Services, ACA

KAYE COMPART
Chairperson of the Board
AgStar Financial Services, ACA

Generating Business Success

2015 was an excellent year for AgStar financially, with a net income of $123.9 million and a 9.7 percent increase in loan volume. Additionally, our credit quality and capital ratios remained stable. By providing resources and guidance to help growers understand their options, balance their financials and proactively manage their costs, we came together to face uncertainty with confidence. With such outstanding results, we were once again proud to distribute $28 million in patronage dividends back to you.

The Best Team in the Business

At AgStar, we believe team members who enjoy their work are more engaged and productive, leading to an exceptional client experience. Our team is passionate about not only the work we do, but how we do it. And we've worked hard to cultivate a culture of inclusion and diversity wherein everyone feels valued and rewarded by their work. Our team's efforts do not go unnoticed, as we were once again named a Star Tribune Top Workplace this year.

You're the Heart of Agriculture

Most of all, we'd like to thank you for your business. Agriculture is hard work, full of financial and physical risks with more unknowns than any other business faces. Your hard work and dedication to agriculture inspires everyone in the AgStar family to do more to help you succeed.

It's been our honor and privilege to serve generations of farmers and agribusiness professionals who not only provide for their families, but also provide fuel, fiber and food for all families across the country and around the world. Thank you for your commitment to our industry and for doing business with AgStar.

Board of Directors

Executive Committee

Financial Highlights

2015

8.25%
Compound Annual Growth Rate for the Last Five Years

$1,227 MILLION
Equity (Total Capital)

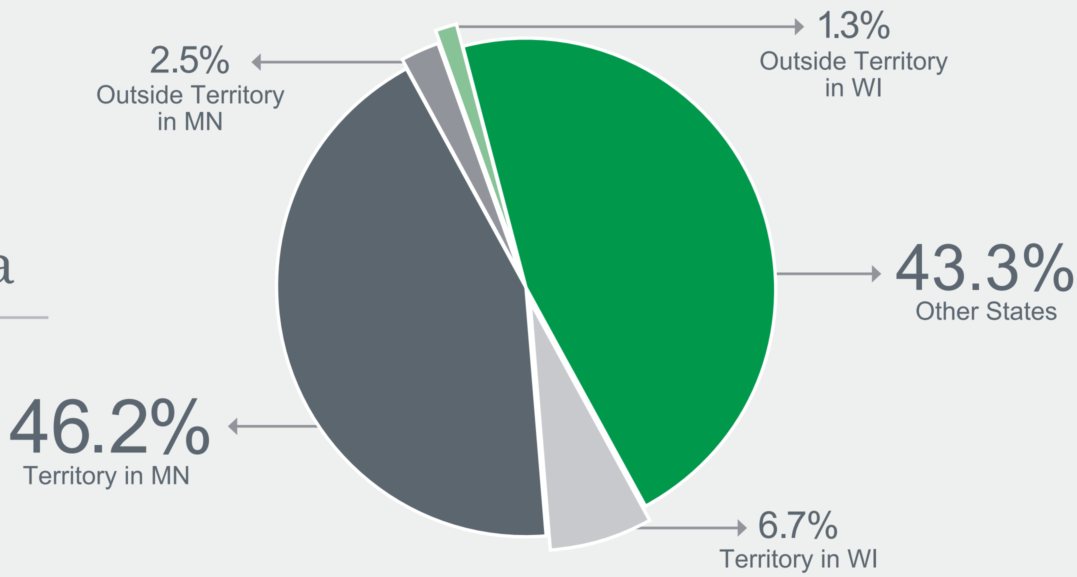
Year	Net Income After Tax (In Millions)	Earning Assets (In Billions)	Cumulative Patronage Allocations (In Millions)	Annual Patronage Allocations (In Millions)
2015	$123.9	$8.1	$576	$63.0
2014	$117.4	$7.4	$513	$60.1
2013	$116.1	$6.9	$453	$61.7
2012	$107.4	$6.4	$392	$55.3
2011	$75.4	$5.7	$336	$40.3

564
Full-Time Equivalent Team Members

15,200
Number of Voting Stockholders

20,900
AgStar Clients

Volume by Area



Volume by Enterprise

34.4% Grain/Cash Crops	7.5% Other
16.3% Agribusiness	5.1% Cattle
10.0% Swine	4.3% Forest Products
8.7% Dairy	3.1% Landlords
7.8% Home Mortgages	2.8% Renewable Energy

Financial Results

18 Consolidated Five-Year Summary of Selected Financial Data
19 Management's Discussion and Analysis
30 Report of Management
31 Report on Internal Control Over Financial Reporting
32 Report of Audit Committee
33 Independent Auditor's Report
34 Consolidated Financial Statements
38 Notes to Consolidated Financial Statements
62 Disclosure Information Required by Regulations

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgStar Financial Services, ACA

(dollars in thousands)

	2015	2014	2013	2012	2011
Statement of Condition Data					
Loans held to maturity	**$ 7,572,042**	$ 6,899,646	$ 6,363,512	$ 5,913,336	$ 5,187,874
Allowance for loan losses	**27,071**	23,655	24,725	26,814	26,833
Net loans held to maturity	**7,544,971**	6,875,991	6,338,787	5,886,522	5,161,041
Loans held for sale	**35,380**	7,899	4,470	--	--
Net loans	**7,580,351**	6,883,890	6,343,257	5,886,522	5,161,041
Unrestricted cash	**1,900**	--	--	--	--
Investment securities	**442,972**	481,936	462,424	484,092	505,486
Investment in AgriBank, FCB	**171,395**	142,098	150,016	141,137	130,150
Other property owned	**1,060**	3,140	3,315	10,137	6,954
Other assets	**164,032**	161,176	146,591	141,609	141,787
Total assets	**$ 8,361,710**	$ 7,672,240	$ 7,105,603	$ 6,663,497	$ 5,945,418
Obligations with maturities of one year or less	**$ 7,035,085**	$ 6,434,693	$ 5,950,196	$ 5,692,651	$ 5,040,179
Obligations with maturities greater than one year	**99,491**	99,369	99,247	99,125	99,003
Total liabilities	**7,134,576**	6,534,062	6,049,443	5,791,776	5,139,182
Preferred stock	**100,000**	100,000	100,000	--	--
Capital stock and participation certificates	**16,085**	16,177	15,912	15,655	14,859
Allocated surplus	**406,758**	371,004	339,360	302,789	290,517
Unallocated surplus	**704,291**	650,915	600,888	553,277	500,860
Accumulated other comprehensive income	**--**	82	--	--	--
Total equity	**1,227,134**	1,138,178	1,056,160	871,721	806,236
Total liabilities and equity	**$ 8,361,710**	$ 7,672,240	$ 7,105,603	$ 6,663,497	$ 5,945,418
Statement of Income Data					
Net interest income	**$ 197,568**	$ 187,480	$ 175,272	$ 158,151	$ 147,565
Provision for (reversal of) loan losses	**5,939**	1,084	(3,078)	7,182	7,400
Other expenses, net	**(67,727)**	(69,007)	(62,220)	(43,588)	(64,753)
Net income	**$ 123,902**	$ 117,389	$ 116,130	$ 107,381	$ 75,412
Key Financial Ratios					
Return on average assets	**1.6%**	1.6%	1.7%	1.8%	1.3%
Return on average equity	**10.4%**	10.7%	11.9%	12.9%	9.7%
Net interest income as a percentage of average earning assets	**2.7%**	2.7%	2.7%	2.7%	2.7%
Equity as a percentage of total assets	**14.7%**	14.8%	14.9%	13.1%	13.6%
Net charge-offs as a percentage of average earning assets	**0.0%**	0.0%	0.0%	0.1%	0.4%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.1%	0.4%
Allowance for loan losses as a percentage of loans	**0.4%**	0.3%	0.4%	0.5%	0.5%
Permanent capital ratio	**14.8%**	15.7%	15.4%	13.9%	14.6%
Total surplus ratio	**14.5%**	15.4%	15.2%	13.7%	14.4%
Core surplus ratio	**12.3%**	12.9%	12.5%	10.9%	11.2%
Net Income Distributed					
Patronage distributions:					
Allocated surplus	**$ 62,908**	$ 60,004	$ 61,598	$ 54,966	$ 40,015
Preferred stock dividends	**6,750**	6,749	3,132	--	--
Other					
Asset Pool Loans serviced for AgriBank, FCB	**256,550**	74,040	82,850	102,794	119,252

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgStar Financial Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgStar Financial Services, ACA (the Association) and its subsidiaries, AgStar Financial Services, FLCA and AgStar Financial Services, PCA (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 January 1, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 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 governed 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). AgStar Financial 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", "outlook", 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 markets, international, 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
- Changes in our assumptions for determining the allowance for loan losses, other-than-temporary impairment, and fair value measurements

AGRICULTURAL AND ECONOMIC CONDITIONS

We are chartered to serve territories in Minnesota and Wisconsin and serve many sectors in agriculture including our primary agricultural industries of grain, swine, and dairy. We also serve the housing, energy, and food processing and distribution segments. Credit quality, delinquencies, and nonaccrual measures remained stable during 2015. The United States Department of Agriculture (USDA) World Agriculture Supply and Demand Estimates (WASDE) report released on January 12, 2016 estimates the 2015 corn crop yield at 168.4 bushels per acre and total production of 13.6 billion bushels. The same report estimated a U.S. soybean yield of 48.0 bushels per acre and total production of 3.9 billion bushels. For Minnesota, the report estimated an average corn yield of 188.0 bushels per acre and an average soybean yield of 50.0 bushels per acre.

The outlook for corn prices in 2016 is consistent with 2015. In the January 12, 2016 WASDE report, the USDA projects 2015/16 average corn prices of $3.30 to $3.90 per bushel. This range includes the $3.70 for 2014/15 near its midpoint. Globally, feed and other uses are consistent with those of the previous marketing year.

Strong global soybean production led to lower price outlook for 2015/16. Soybean exports are expected to slow significantly due to increased competition from Argentina and a stronger U.S. dollar. The 2015/16 U.S. season-average farm price forecast for soybeans is $8.05 to $9.55 per bushel compared to the 2014/15 level of $10.10 based on the January 12, 2016 WASDE report.

Profits realized for the primary segments of our portfolio were less favorable during 2015. More favorable growing conditions within our territory, coupled with generally favorable conditions in the broader Corn Belt, led to strong production and tight margins for grain producers. Margins for grain producers will likely remain narrow in 2016 based on current expectations and futures prices. As we receive updated client financial information in 2016, we are expecting generally small losses to break-even conditions, with some stress in the grain portfolio likely to occur as a result of lower commodity prices. The low corn prices remained a positive for input costs for livestock producers and ethanol facilities. Profit margins for swine and dairy producers were generally around break-even in 2015, with a similar outlook into 2016.

According to the USDA Economic Research Service, net farm income is forecasted at $55.9 billion for 2015, down $34.5 billion (38.2%) from 2014. Net cash income is expected to decline by $35.6 billion, to $93.0 billion when compared to the $128.6 billion in 2014, driven primarily by lower grain and livestock prices. The report expects total expenses to decrease to $382.6 billion, down $7.7 billion from 2014. Expenses are forecasted to fall for the first time since 2009. Lower crude oil prices should result in lower energy input costs for livestock and crop producers. Longer term, on the crop side, we could potentially see some input reductions over time.

Overall conditions have been favorable for agricultural producers and agribusinesses in recent years. Profit margins and credit quality for our agribusiness segment remained stable in 2015. Our current credit quality expectations for 2016 remain favorable. Agricultural related businesses have generally been profitable and fared better during the past several years than companies not closely tied to agriculture. Overall, this portfolio, mainly consisting of power, telecom, and renewable energy, has been performing satisfactorily.

Over the past few years, our home mortgage portfolio has continued to perform better than the overall housing industry. Delinquencies and foreclosures remained stable in 2015. Expectation is for the portfolio to remain stable as economic conditions have improved.

There are positive signs the economy has turned the corner, such as a lower unemployment rate, increased consumer confidence and a low rate of inflation. According to the U.S. Bureau of Labor Statistics, the national unemployment rate dropped to 5.0% in December 2015 compared to 5.6% at the end of 2014. Energy price declines in the fourth quarter of 2015 have also contributed positively to consumer confidence. Inflation rates have declined from 1.7% in 2012 to flat at the end of 2015. Home mortgage interest rates had a mostly stable trend through the last half of 2015. The current economy, low interest rates and housing prices have made the environment very good for new home buyers.

Farm real estate values in our territory were generally slightly below 2014 levels though demand for farm real estate remained steady. Values for transitional and recreational property remain low compared to the peak values previously reached.

We do extensive monitoring of land values in our territory, conducted by licensed real estate appraisers, of a sample of benchmark farms selected to represent our lending footprint. Our most recent internal benchmarking real estate market survey, as of June 30, 2015, indicated that regional agricultural land values in our territory had decreased on average by 3% in the previous 12 months. In addition, qualitative surveys of lending officers, compiled by the Federal Reserve Banks of Chicago and Kansas City as of September 30, 2015 indicated flat farmland values. The Banks cited survey findings of no year-over-year change in the value of non-irrigated farmland.

Declining land values following sustained periods of land value increases have historically created conditions of considerable risk for collateral-based lenders. Nominal and real (inflation-adjusted) agricultural land values have increased in proportions similar to other asset classes such as stocks and urban residential and commercial land during the last decade, but agricultural land values escaped the valuation declines that other assets suffered during the recession. This is largely because grain farming remained profitable throughout the economic crisis period. As profit margins in grain tighten, it is likely that farmland values will post some decline in the future. We have maintained a disciplined approach to our real estate underwriting standards.

Our credit risk policies emphasize loan repayment capacity in addition to conservative assessments of collateral values that secure loans. Although Farm Credit Administration (FCA) Regulations allow real estate mortgage loans of up to 85% of appraised value, our underwriting standards generally limit lending to no more than 65% of sustainable value (based on crop production history) at origination for agricultural production land. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases offsetting strengths are generally present in other areas.

Some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Loan Portfolio

Total loans held to maturity and finance and conditional sales leases (hereinafter collectively referred to as loans) were $7.6 billion at December 31, 2015, an increase of $672.4 million from December 31, 2014.

Components of Loans

(in thousands)

As of December 31	**2015**	2014	2013
Accrual loans:			
Real estate mortgage	**$ 3,652,435**	$ 3,445,430	$ 3,162,947
Production and intermediate term	**2,006,728**	1,914,878	1,734,318
Agribusiness	**919,991**	598,236	529,106
Other	**943,991**	889,763	797,744
Nonaccrual loans	**48,897**	51,339	139,397
Total loans	**$ 7,572,042**	$ 6,899,646	$ 6,363,512

The other category is primarily comprised of energy, communication, rural residential real estate, and international related loans as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

The increase in total loans from December 31, 2014 resulted primarily from our continued focus on capitalizing on growth opportunities in our real estate mortgage and agribusiness portfolios.

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

On December 1, 2015 we sold to AgriBank a 90.0% participation interest in real estate loans under the AgriBank Asset Pool program totaling $197.7 million. These loan participations were added to the participation pool originally established by AgriBank in 2008. As a result of this transaction, we were required to purchase additional AgriBank stock in order to maintain the required investment equal to 8.0% of the loans we have sold under this program. Our total participation interests in this program were $256.6 million, $74.0 million, and $82.9 million at December 31, 2015, 2014, and 2013, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Minnesota and Wisconsin. At December 31, 2015, approximately 46.2% of our loan portfolio was within our territory in Minnesota, 6.7% was within our territory in Wisconsin, 2.5% was in Minnesota outside our territory, and 1.3% was in Wisconsin outside our territory.

Agricultural concentrations exceeding 5.0% of our portfolio at December 31, 2015 included: cash grains 34.4%, agribusiness 16.3%, swine 10.0%, dairy 8.7%, home mortgages 7.8%, and cattle 5.1%. Additional commodity concentration information is included in Note 3 to the accompanying Consolidated Financial Statements.

Our production and intermediate term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as clients fund operating needs. In addition, the loan portfolio increased temporarily in December, followed by significant repayments in January, as clients increased their operating lines to purchase 2016 production inputs, primarily for tax-planning strategies.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2014. Adversely classified loans were 1.8% of the portfolio at December 31, 2015 and 2014. 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.

Most dairy producers experienced near break-even margins during 2015 compared to strong profits in 2014 due to declining feed costs and higher milk prices. For the year, most operations will be slightly above or below break-even depending upon marketing and production. Dairy exports are expected to remain depressed into 2016 and will keep milk prices lower. This will pressure margins for some of our clients.

Pork production was similar to dairy in 2015 as profitability will hinge upon individual producer margin management. Weaker export markets pressured margins though the use of contracting and hedging for risk management helped most producers to at least break-even. Volatility will continue to be the norm and margin management is key to ongoing viability. There have been few opportunities for clients to lock in positive margins for 2016, so clients' margins will be under pressure in 2016. The Porcine Epidemic Diarrhea virus (PEDv) was largely a non-factor to our clients in 2015.

The volatility of corn and soybean prices creates an added risk for producers to manage, particularly for the protein sectors of our portfolio.

Crop producers enjoyed several years of strong income driven by export demand and the expanded use of grains for bio-fuel production. Credit quality in this segment remains strong. With generally favorable conditions for U.S. corn and soybean production in 2015, prices decreased significantly this past year and, as such, we expect grain producer incomes to be break-even to moderate losses. Strong equity positions should be maintained, but we expect to see tightening margins pose challenges for some producers during the next 12 to 24 months. Domestic stocks of corn and soybeans are at solid levels. Grain producers in Minnesota and Wisconsin generally experienced a strong production year in 2015.

Conditions the past two to three years have been favorable overall for agricultural producers resulting in positive performance generally for agribusinesses. Ethanol assets are part of the agribusiness segment and credit quality in this segment remained at sound levels as margins remained stable due to lower corn prices. Most ethanol producers were near break-even in 2015.

In addition, significant steps to manage risk in the portfolio have been taken through enhancement of risk management and continuing efforts to promote financial counseling.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At December 31, 2015, $182.4 million of our loans were, to some level, guaranteed under these government programs. In addition, at December 31, 2015, $470.2 million of our loans were to some level guaranteed through the Federal Agricultural Mortgage Corporation (Farmer Mac) Standby Commitment Program.

Excluded in the ratios and volumes as discussed in this section are our investment securities held-to-maturity. At December 31, 2015, these investment securities totaled $443.0 million, consisting of $396.4 million in mortgage-backed securities issued by Farmer Mac or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA), $41.6 million in asset-backed securities, issued and guaranteed by SBA or USDA, and $4.9 million in municipal bonds, which are currently not guaranteed. Had this volume been included, the adversely classified asset ratio would be 1.7% at December 31, 2015, compared to 1.6% at December 31, 2014. Additional investment securities information is included in Notes 5 and 18 to the accompanying Consolidated Financial Statements.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due (accruing loans include accrued interest receivable), and other property owned.

Components of Risk Assets

(dollars in thousands) As of December 31		**2015**		2014		2013
Loans:						
Nonaccrual	**$**	**48,897**	$	51,339	$	139,397
Accruing restructured		**21,072**		22,892		2,101
Accruing loans 90 days or more past due		**124**		304		--
Total risk loans		**70,093**		74,535		141,498
Other property owned		**1,060**		3,140		3,315
Total risk assets	**$**	**71,153**	$	77,675	$	144,813
Total risk loans as a percentage of total loans		**0.9%**		1.1%		2.2%
Nonaccrual loans as a percentage of total loans		**0.6%**		0.7%		2.2%
Total delinquencies as a percentage of total loans		**0.4%**		0.5%		0.8%

Our risk assets have decreased from December 31, 2014 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans was due to settling volume mainly through upgrading, payoffs, or pay downs on certain accounts in our cash grains and dairy portfolios. Nonaccrual loans remained at an acceptable level at December 31, 2015, 2014, and 2013, and 69.1%, 72.4%, and 73.2% of our nonaccrual loans were current at December 31, 2015, 2014, and 2013, respectively.

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 accruing loans 90 days or more past due were eligible to remain in accruing status.

The decrease in other property owned was the result of selling properties.

The decrease in total delinquencies as a percentage of total loans was primarily due to overall improvements in credit quality and loan growth.

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, estimated probability of default, estimated loss severity, portfolio quality, stress testing, and current economic and environmental conditions.

Allowance Coverage Ratios

As of December 31	**2015**	2014	2013
Allowance as a percentage of:			
Loans	**0.4%**	0.3%	0.4%
Nonaccrual loans	**55.4%**	46.1%	17.7%
Total risk loans	**38.6%**	31.7%	17.5%
Net charge-offs as a percentage of average earning assets	**0.0%**	0.0%	0.0%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**11.8%**	11.2%	18.6%

The increase in our allowance for loan losses, which resulted in additional provision for loan losses, was due to continued stress in the cash grains segment of our portfolio. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2015.

Additional loans held to maturity information is included in Notes 3, 14, 15, 17, and 18 to the accompanying Consolidated Financial Statements.

LOANS HELD FOR SALE

Beginning in 2013, we originate loans held for sale under our RuraLiving® program, a rural residential mortgage program, designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor. The volume in this program was $35.4 million, $7.9 million, and $4.5 million at December 31, 2015, 2014, and 2013, respectively. We typically purchase the resulting securities, a portion of which we actively market and sell within 30 days of purchase. Refer to the Investment Securities section for additional information regarding these transactions. Additional loans held for sale information is included in Notes 4 and 17 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans and leases, we hold investment securities. We had held-to-maturity investment securities of $443.0 million, $460.9 million, and $462.4 million at December 31, 2015, 2014, and 2013, respectively. Our investments primarily include mortgage-backed securities (MBS) issued by Farmer Mac or guaranteed by the SBA or USDA, asset-backed securities issued and guaranteed by SBA and USDA, and municipal bonds.

We purchase MBS investments, a significant portion of which are the resulting securities from our RuraLiving® program. These investments may be held-to-maturity or available-for-sale and are included in “Investment securities” on the Consolidated Statements of Condition. Included within our held-to-maturity investment securities portfolio are Farmer Mac mortgage-backed securities of $276.2 million, $267.4 million, and $272.4 million as of December 31, 2015, 2014, and 2013, respectively. Our investments available-for-sale totaled $21.0 million at December 31, 2014. During 2015, we sold available-for-sale investment securities with total sales proceeds of $53.7 million, resulting in a gain of $355 thousand, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. We had no outstanding available-for-sale investment securities at December 31, 2015 or 2013.

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 18 to the accompanying Consolidated Financial Statements.

OTHER INVESTMENT

We and other Farm Credit Institutions are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $20.0 million through October 2019. The RBIC investment increased due to capital calls to fund new investments during 2015. Our investment in the RBIC totaled $4.2 million and $0.8 million at December 31, 2015 and 2014, respectively.

The investment was evaluated for impairment. No impairments were recognized on this investment during 2015 or 2014. We have not received any distributions from the fund during the years ended December 31, 2015 or 2014.

Additional other investment information is included in Notes 6 and 18 to the accompanying Consolidated Financial Statements.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	**2015**	2014	2013
Net income	**$ 123,902**	$ 117,389	$ 116,130
Return on average assets	**1.6%**	1.6%	1.7%
Return on average equity	**10.4%**	10.7%	11.9%

Changes in these ratios relate directly to:

- Changes in income as discussed below
- Changes in assets as discussed in the Loan Portfolio, Investment Securities, and Other Investment sections
- Changes in equity as discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31			Increase (decrease) in net income	
	2015	2014	2013	**2015 vs 2014**	2014 vs 2013
Net interest income	**$ 197,568**	$ 187,480	$ 175,272	**$ 10,088**	$ 12,208
Provision for (reversal of) loan losses	**5,939**	1,084	(3,078)	**(4,855)**	(4,162)
Patronage income	**18,146**	21,684	21,540	**(3,538)**	144
Other income, net	**41,169**	35,778	38,467	**5,391**	(2,689)
Operating expenses	**126,344**	123,009	117,747	**(3,335)**	(5,262)
Provision for income taxes	**698**	3,460	4,480	**2,762**	1,020
Net income	**$ 123,902**	$ 117,389	$ 116,130	**$ 6,513**	$ 1,259

Net Interest Income

Changes in Net Interest Income

(in thousands)	**2015 vs 2014**	2014 vs 2013
Changes in volume	**$ 17,264**	$ 17,895
Changes in interest rates	**(8,725)**	(6,164)
Changes in asset securitization	**229**	257
Changes in nonaccrual income and other	**1,320**	220
Net change	**$ 10,088**	$ 12,208

Net interest income included income on nonaccrual loans that totaled $7.2 million, $5.7 million, and $5.3 million in 2015, 2014, and 2013, 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 as a percentage of average earning assets) was 2.7% in 2015, 2014, and 2013. We expect margins to further compress in the future if interest rates continue to rise, competition increases, and growth in our correspondent lending programs continues. We expect our loan and lease products to remain competitive in the market place in 2016.

Provision for (Reversal of) Loan Losses

The fluctuation in the provision for (reversal of) loan losses is related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. The patronage rates were 26.0 basis points, 33.5 basis points, and 34.5 basis points in 2015, 2014, and 2013, respectively. We recorded patronage income of $16.6 million, $19.7 million, and $19.2 million in 2015, 2014, and 2013, respectively.

Since 2008, we have participated in the AgriBank 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. We recorded asset pool patronage income of $1.6 million, $1.9 million, and $2.3 million in 2015, 2014, and 2013, respectively.

Patronage distributions for the programs discussed above are declared solely at the discretion of AgriBank's Board of Directors.

Other Income, Net

The change in other income, net is caused by a variety of factors. Loan fees generated as a result of growth in loan volume, appraisal fees, and net gain on sales of investments resulted in an increase in "Fee and miscellaneous income, net" in the accompanying Consolidated Statements of Comprehensive income of $3.3 million. Crop reinsurance and commissions earned on title and hail insurance policies drove a $2.0 million increase in "Financially related services income" in the accompanying Consolidated Statements of Comprehensive Income year over year.

We originate rural home loans for resale in the secondary market. We sold loans in the secondary market totaling $57.9 million, $37.2 million, and $56.2 million in 2015, 2014, and 2013, respectively. The fee income from this activity totaled $1.3 million, $0.8 million, and $1.2 million 2015, 2014, and 2013, respectively. These amounts are include in "Fee and miscellaneous income, net" in the accompanying Consolidated Statements of Comprehensive Income.

Operating Expenses

The following presents a comparison of operating expenses by major category and the net pre-tax operating rate (total on-going expenses less financially related services income and fees earned, divided by average earning assets).

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2015**	2014	2013
Salaries and employee benefits	**$ 87,157**	$ 83,776	$ 81,657
Purchased and vendor services	**5,477**	5,688	6,364
Communications	**1,297**	1,381	1,367
Occupancy and equipment	**11,781**	11,282	10,639
Advertising and promotion	**6,179**	6,375	5,504
Examination	**1,612**	1,523	1,430
Farm Credit System insurance	**8,408**	7,158	5,615
Other	**4,433**	5,826	5,171
Total operating expenses	**$ 126,344**	$ 123,009	$ 117,747
Net pre-tax operating rate	**1.0%**	1.1%	1.1%

Salaries and benefits expense increased $3.4 million primarily related to higher pension related expense, an increase in variable compensation expense resulting from favorable business results, and normal salary and benefit increases.

Occupancy and equipment expense increased $499 thousand due to higher technology related depreciation and maintenance expense.

FCSIC insurance expense increased $1.3 million in 2015 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 Insurance Corporation has announced premiums will increase to 16 basis points for the first half and 18 basis points for the second half of 2016.

The decrease in other expenses is largely related to the reduction in director expense and travel expense.

Provision for Income Taxes

The variance in provision for income taxes is largely related to a decrease in the pre-tax income of the taxable entities and our estimate of taxes based on taxable income. Patronage distributions reduced our tax liability in 2015, 2014, and 2013. Additional discussion is included in Note 12 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 9 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2015, we had $420.4 million available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands) For the year ended December 31	**2015**	2014	2013
Average balance	**$ 6,368,928**	$ 5,890,395	$ 5,556,712
Average interest rate	**1.6%**	1.6%	1.6%

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 we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, total surplus, and core surplus, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 11 to the accompanying Consolidated Financial Statements.

We have $100 million of aggregate principal amount of Series A Subordinated Notes (Notes) due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200.0 million for subordinated debt issuance. The Notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. At our option, we may redeem all or some of the Notes at any time on or after a date 10 years from the closing date (March 2010). The transaction increased our regulatory permanent capital and total surplus ratios under current FCA Regulations and positions us for the future.

We have entered into a Standby Commitment to Purchase Agreement with 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. This agreement remains in place until the loan is paid in full. We had $470.2 million, $469.7 million, and $426.8 million of our loans in this program at December 31, 2015, 2014, and 2013, respectively. We paid Farmer Mac commitment fees totaling $2.0 million, $2.0 million, and $1.6 million in 2015, 2014, and 2013, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income. There were no sales of loans to Farmer Mac under this agreement in 2015, 2014, and 2013.

CAPITAL ADEQUACY

Total equity increased $89.0 million from December 31, 2014, primarily due to net income for the year, which was partially offset by patronage distribution accruals and preferred stock dividends.

Equity Position Information

(dollars in thousands) As of December 31	Regulatory Minimums	**2015**	2014	2013
Equity		**$ 1,227,134**	$ 1,138,178	$ 1,056,160
Surplus as a percentage of equity		**90.5%**	89.8%	89.0%
Permanent capital ratio	7.0%	**14.8%**	15.7%	15.4%
Total surplus ratio	7.0%	**14.5%**	15.4%	15.2%
Core surplus ratio	3.5%	**12.3%**	12.9%	12.5%

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 stockholder needs and protect stockholder interests, both now and in the future.

Refer to the Funding and Liquidity section for further discussion related to our non-cumulative perpetual preferred stock and subordinated notes. Additional information is included in Notes 10 and 11 to the accompanying Consolidated Financial Statements.

Additional discussion of these regulatory ratios is included in the Regulatory Matters section and in Note 11 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum permanent capital target. 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, 2015, our optimum permanent capital target was 12.25%.

We have a nonqualified patronage program that targets payment to borrowers within 7-10 years after the year of declaration, subject to Board approval. The Board of Directors authorized the retirement of the remainder of the nonqualified patronage allocations of $28.2 million, $28.9 million, and $24.7 million in 2015, 2014, and 2013, respectively. In addition, the Board of Directors authorized the payment of $868 thousand, $609 thousand, and $88 thousand of dividends on approved transactions in 2015, 2014, and 2013, respectively. The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding our patronage distributions is included in Notes 11 and 12 to the accompanying Consolidated Financial Statements.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio, Investment Securities, and Other Investment sections for further discussion of the changes in assets. Additional equity information is included in Note 11 to the accompanying Consolidated Financial Statements.

ACCUMULATED OTHER COMPREHENSIVE INCOME

Our investment portfolio includes available-for-sale securities that are carried at fair value. Unrealized gains and losses on the available-for-sale investment securities that are not other-than-temporarily impaired are reported as a separate component of equity. During 2014, the change in net unrealized gains on all investment securities totaled $82 thousand of other comprehensive income, reflecting unrealized gains from changes in interest rates. During 2015, these unrealized gains were reclassified to income due to the sale of securities.

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 9 to the accompanying Consolidated Financial Statements, 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, bank profit, and, if applicable, a risk premium component. However, in the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily includes market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset Liability Committee.

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 distributed AgriBank surplus. As of December 31, 2015, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5% 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 balance in the AgriBank Asset Pool program.

At December 31, 2015, $111.3 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $60.1 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.

As an AgDirect, LLP partnering association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

Patronage

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

- Patronage on our note payable with AgriBank
- Patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program

Patronage income for 2013 on our note payable with AgriBank was paid in the form of cash and AgriBank stock. Beginning in 2014, patronage income earned on our note payable with AgriBank is paid in cash. All patronage income earned as part of the AgriBank Asset Pool program is paid in cash.

In May 2015, we began actively participating in the AgDirect trade financing program and made our initial investment in the partnership in June 2015. AgriBank's Board of Directors sets the level of partnership distribution based on our share of the net earnings of the loans in the AgDirect trade credit finance program, adjusted for required return on capital and servicing and origination fees. No partnership distribution was received during the year ended December 31, 2015, or during the years ended December 31, 2014 or 2013 as we had not yet joined the partnership.

Purchased Services

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

The total cost of services we purchased from AgriBank was $1.9 million, $1.9 million, and $1.8 million in 2015, 2014, and 2013, respectively.

Impact on Stockholders' investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our stockholders' investment. To request free copies of the AgriBank and the combined AgriBank and affiliated Associations' financial reports contact us at:

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Our Annual Report is available on our website no later than 75 days after the end of the calendar year and stockholders are provided a copy of 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. To request free copies of our Annual or Quarterly Reports contact us as stated above.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing for agribusiness companies. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation was established according to a prescribed formula which included risk funds of the associations. We had $163.3 million, $149.6 million, and $131.0 million of ProPartners volume at December 31, 2015, 2014, and 2013, respectively. We also had $239.7 million of available commitment on ProPartners loans at December 31, 2015.

As the facilitating association for ProPartners, we provide, and are compensated for, various support functions. This includes human resources, accounting, payroll, reporting, and other finance functions. We also serve as the primary originating association for ProPartners participations and sales.

Federal Agricultural Mortgage Corporation: We have a financial relationship with Farmer Mac to provide a standby commitment program for the repayment of principal and interest on certain loans. Refer to the Funding and Liquidity section for further discussion.

We also purchase mortgage-backed security investments from Farmer Mac. Refer to the Investment Securities section for further discussion.

Additionally, we are an approved mortgage loan central servicer for Farmer Mac. Total loan volume being serviced was $244.3 million, $177.2 million, and $158.0 million as of December 31, 2015, 2014, and 2013, respectively. Income from this servicing was $383 thousand, $370 thousand, and $385 thousand for the years ended December 31, 2015, 2014, and 2013, respectively.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers. CoBank also provides certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes an $8.0 million back-up cash management settlement facility. As part of this relationship, our equity investment in CoBank was $919 thousand, $796 thousand, and $814 thousand at December 31, 2015, 2014, and 2013, respectively.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll, and workforce management services. As of December 31, 2015, 2014, and 2013, our investment in Foundations was $83 thousand. The total cost of services we purchased from Foundations was $422 thousand, $391 thousand, and $393 thousand in 2015, 2014, and 2013, respectively.

FCC Services: We have a relationship with FCC Services to provide various risk and insurance management, vehicle purchases, and training services. Additionally, we have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement. Included in "Other assets" in the Consolidated Statements of Condition is $4.5 million, net, to help support our total relationship. In net, we paid $1.3 million, $3.1 million, and $3.9 million in 2015, 2014, and 2013, respectively, to FCC Services for insurances, memberships, training, and losses under the loss/gain sharing agreement.

Rural Business Investment Company: We and other Farm Credit Institutions are among the forming limited partners for a $154.5 million RBIC established on October 3, 2014. Refer to the Other Investment section for further discussion.

Unincorporated Business Entities (UBEs)

We have two limited liability corporations (LLC's) established for the purpose of acquiring and selling collateral acquired through the loan collection process. The names of these LLC's are: Dairy Acquisition I, LLC and Cranberry Acquisition, LLC.

4 Rivers, LLP: We participate with certain other AgriBank District associations in 4 Rivers, LLP (the LLP), which functions as a negotiating and administrative arm for crop insurance. 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, 2015, 2014, and 2013. The participating associations have equal ownership in the LLP and share costs equally.

Rural Funding, LLC: We have a limited liability corporation established for the purpose of facilitating bond transactions with other financial institutions called Rural Funding, LLC. We do not receive any management fees from the limited liability corporation.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $1.9 million at December 31, 2015. We had no investment at December 31, 2014 or 2013.

Programs

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

AgStar Fund for Rural America: Created in 2001, the AgStar Fund for Rural America (Fund) helps create stability and strength by investing in quality of life programs that enhance life in agriculture and rural America for rural residents and their communities. In 2015, the Fund awarded $970 thousand through scholarships, grants, and sponsorships to support ag-related programs. The Fund is managed by an internal committee.

Highlights of the 2015 Fund activities include:

- $220 thousand in grants to support local organizations that benefit agriculture and rural residents, supporting education, the environment, technology, and quality of life.
- $152 thousand to the Emergency Response Departments providing rural communities with response equipment, technology, and turnout gear.
- $50 thousand to high school agriculture classrooms, funding the technology and equipment needs in agricultural education.

AgriHedge: We offer the AgriHedge product to eligible association borrowers. The AgriHedge product is a simple, effective way for farmers to hedge their crop revenue. Farmers are able to establish a hedge price on various commodities including, but not limited to: corn, soybeans, wheat, certain livestock, or class III milk by combining an operating loan with a third-party commodity swap product. This product combination enables the farmer to hedge commodity price risk without the typical upfront cash flows for fees and on-going margin calls (including costs of borrowing) of a traditional swap product. Fees incurred are paid by the farmer when the contract is settled and cash is received or paid. Eligible participants must meet certain credit criteria and the hedges must be for their own crop.

RuraLiving®: RuraLiving® is a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor.

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

We also participate in the AgDirect trade credit financing program. Refer to the UBE section for further discussion on this program.

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

Mission Related Investments: The public mission of the System has always been to provide financing to agriculture and rural areas. Our primary focus has always been and will remain financing production agriculture. Because of the changing needs of rural America, we have placed additional emphasis on investing in rural communities and businesses by creating the Rural Capital Network. We had outstanding bonds of $192.6 million, $168.8 million, and $161.5 million at December 31, 2015, 2014, and 2013, respectively. This business unit makes investments in rural America through the purchase of bonds, focusing on rural businesses, health care, and housing facilities.

We continue to have minority investments in a few small-scale local economic development corporations and have outstanding investments $72 thousand, $75 thousand, and $78 thousand in local economic development corporations at December 31, 2015, 2014, and 2013, respectively.

Patronage: Since 1998, our Board of Directors has allocated $576.3 million of nonqualified patronage dividends to our member stockholders. Our nonqualified patronage allocation is based on a Board of Directors resolution requiring an allocation of annual net patronage-eligible earnings. For 2015, this amounted to $63.0 million, spread between our member stockholders. Allocated patronage equities have no voting rights and are redeemed at the sole discretion of the Board of Directors.

Fleet Management: We offer fleet management services to small and mid-sized agribusinesses. Depending on the program selected, services range from customized vehicle ordering, combined with lease financing, to full service program options of providing fuel cards, maintenance management, 24/7 emergency roadside assistance, license renewal services, fleet reporting, and vehicle disposal service. Additionally, we make available customized vehicle ordering and leasing options to Farm Credit institutions. At the end of 2015, we have ordered vehicles for 26 System entities. We have manufacturer's fleet codes for the following brands: Ford, General Motors, Chrysler, Toyota, Nissan, Mazda, Volvo, and Subaru.

Business Units

Agri-Access®: We have entered into agreements with certain financial institutions to provide correspondent lending programs under the trade name Agri-Access®, which operates as a unit of AgStar Financial Services, ACA. Agri-Access focuses primarily on purchasing participations in agricultural real estate loans, rural home loans, and leases. Agri-Access also services loan portfolios for other institutional investors. These financial services firms are dispersed throughout the United States. The main Agri-Access contact office is located in Des Moines, Iowa. We also have contact offices in Meridian, Idaho and Canyon, Texas. Further information can be obtained at www.agri-access.com.

Client Solutions Team: We provide operating, term, and real estate loans, leases, crop insurance, life insurance, and consulting services to over 14,400 core market clients and producers who are typically in the grain, dairy, and swine industries. This structure enables our team to collaborate with other professionals with specialized knowledge, depending on the client's specific goals and unique needs.

Our industry specialists possess broad, extensive knowledge and experience in their areas of expertise, providing financing to commercial producers, agribusinesses, and processors, primarily focused in swine, dairy, and bio-energy.

Our home mortgage services team provides home financing options for rural residents living in the country or in communities with populations of 2,500 or less. The focal points of this segment are mortgages to buy, build, or refinance residences or acreages. Title insurance, appraisal services, and home equity loans are also offered.

Our consulting team provides business advice and professional services such as family business consulting. Services are provided across all commodities with particular expertise in the dairy, swine, and cash grain industry segments.

Capital Markets: The Capital Markets team focuses on relationships with commercial banks, Farm Credit institutions, and other lending partners to buy loan participations and partner in syndicated loan transactions. This specialized team provides a national marketing vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings, and market intelligence to the organization.

Rural Capital Network: The Rural Capital Network team is devoted to supporting community and economic development, infrastructure needs, revitalization projects, and emerging agribusinesses in rural America. Rural Capital Network invests in projects through the purchase of bonds issued by local communities, organizations, or businesses, focusing on investing in critical access hospitals, assisted-living facilities, rural rental multi-family housing, business expansions, and other similar enterprises. In December 2014, an alliance was formed with CoBank to fund rural facilities across the United States. This alliance will help promote jobs, economic benefits and enhance the quality of life in rural communities. This alliance will partner with other Farm Credit institutions and local community banks to provide attractive and reliable short and long term financing options to fully fund projects of significant size.

REGULATORY MATTERS

On May 8, 2014, the FCA Board approved a proposed rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the proposed rule are to:

- Modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise
- Ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System
- Make System regulatory capital requirements more transparent
- Meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act

The most recent comment period closed July 10, 2015. The initial comment period on the proposed rule, after extension, closed February 16, 2015.

On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. The stated objectives of the proposed rule are to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers
- Comply with the requirements of section 939A of the Dodd-Frank Act
- Modernize the investment eligibility criteria for System Banks
- Revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk

The public comment period ended on October 23, 2014.

REPORT OF MANAGEMENT

We prepare the Consolidated Financial Statements of AgStar Financial 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 in 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, which has been prepared 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.

Kaye Compart

Kaye Compart
Chairperson of the Board
AgStar Financial Services, ACA

Rodney W. Hebrink
President and Chief Executive Officer
AgStar Financial Services, ACA

Jase L. Wagner
Senior Vice President and Chief Financial Officer
AgStar Financial Services, ACA

March 9, 2016

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgStar Financial Services, ACA

The AgStar Financial 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, 2015. In making the assessment, management used the 2013 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, 2015, 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, 2015.

Rodney W. Hebrink
President and Chief Executive Officer
AgStar Financial Services, ACA

Jase L. Wagner
Senior Vice President and Chief Financial Officer
AgStar Financial Services, ACA

March 9, 2016

REPORT OF AUDIT COMMITTEE

AgStar Financial Services, ACA

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of AgStar Financial 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 actions 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, 2015, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any 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, 2015.

Wesley Beck
Chairperson of the Audit Committee
AgStar Financial Services, ACA

Members of the Audit Committee:
Terry Ebeling
Joyce Fernando
Larry Fischer
Kevin Koppendrayer

March 9, 2016

pwc

Independent Auditor's Report

To the Board of Directors of AgStar Financial Services, ACA,

We have audited the accompanying Consolidated Financial Statements of AgStar Financial Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2015, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in stockholders' 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 AgStar Financial Services, ACA and its subsidiaries as of December 31, 2015, 2014 and 2013, 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 9, 2016

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

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA

(in thousands)

As of December 31	2015	2014	2013
ASSETS			
Loans held to maturity	**$ 7,572,042**	$ 6,899,646	$ 6,363,512
Allowance for loan losses	**27,071**	23,655	24,725
Net loans held to maturity	**7,544,971**	6,875,991	6,338,787
Loans held for sale	**35,380**	7,899	4,470
Net loans	**7,580,351**	6,883,890	6,343,257
Unrestricted cash	**1,900**	--	--
Investment securities (including $0, $20,997, and $0 at fair value)	**442,972**	481,936	462,424
Assets held for lease, net	**38,396**	41,566	36,452
Accrued interest receivable	**58,734**	54,899	49,456
Investment in AgriBank, FCB	**171,395**	142,098	150,016
Premises and equipment, net	**18,072**	17,388	16,793
Other property owned	**1,060**	3,140	3,315
Other assets	**48,830**	47,323	43,890
Total assets	**$ 8,361,710**	$ 7,672,240	$ 7,105,603
LIABILITIES			
Note payable to AgriBank, FCB	**$ 6,949,764**	$ 6,340,682	$ 5,862,433
Subordinated debt	**99,491**	99,369	99,247
Accrued interest payable	**26,805**	24,367	22,787
Deferred tax liabilities, net	**3,614**	6,730	7,061
Other liabilities	**54,902**	62,914	57,915
Total liabilities	**7,134,576**	6,534,062	6,049,443
Contingencies and commitments (Note 15)			
EQUITY			
Preferred stock	**100,000**	100,000	100,000
Capital stock and participation certificates	**16,085**	16,177	15,912
Allocated surplus	**406,758**	371,004	339,360
Unallocated surplus	**704,291**	650,915	600,888
Accumulated other comprehensive income	**--**	82	--
Total equity	**1,227,134**	1,138,178	1,056,160
Total liabilities and equity	**$ 8,361,710**	$ 7,672,240	$ 7,105,603

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgStar Financial Services, ACA

(in thousands)

For the year ended December 31		**2015**		2014		2013
Interest income	**$**	**306,898**	$	288,597	$	271,082
Interest expense		**109,330**		101,117		95,810
Net interest income		**197,568**		187,480		175,272
Provision for (reversal of) loan losses		**5,939**		1,084		(3,078)
Net interest income after provision for (reversal of) loan losses		**191,629**		186,396		178,350
Other income						
Patronage income		**18,146**		21,684		21,540
Net operating lease income		**1,760**		1,646		1,634
Financially related services income		**19,746**		17,721		16,911
Fee and miscellaneous income, net		**19,663**		16,411		19,922
Total other income		**59,315**		57,462		60,007
Operating expenses						
Salaries and employee benefits		**87,157**		83,776		81,657
Farm Credit System insurance		**8,408**		7,158		5,615
Other operating expenses		**30,779**		32,075		30,475
Total operating expenses		**126,344**		123,009		117,747
Income before income taxes		**124,600**		120,849		120,610
Provision for income taxes		**698**		3,460		4,480
Net income	**$**	**123,902**	$	117,389	$	116,130
Other comprehensive income						
Investment securities available for sale:						
Not-other-than-temporarily-impaired investments	**$**	**(82)**	$	82	$	--
Total other comprehensive income		**(82)**		82		--
Comprehensive income	**$**	**123,820**	$	117,471	$	116,130

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AgStar Financial Services, ACA

(in thousands)

	Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Income	Total Equity
Balance as of December 31, 2012	$ --	$ 15,655	$ 302,789	$ 553,277	$ --	$ 871,721
Net income	--	--	--	116,130	--	116,130
Net surplus allocated under nonqualified patronage program	--	--	61,598	(61,598)	--	--
Redemption of prior year allocated patronage	--	--	(25,027)	--	--	(25,027)
Preferred stock issued	100,000	--	--	(3,701)	--	96,299
Preferred stock dividend	--	--	--	(3,132)	--	(3,132)
Other distribution	--	--	--	(88)	--	(88)
Capital stock and participation certificates issued	--	1,878	--	--	--	1,878
Capital stock and participation certificates retired	--	(1,621)	--	--	--	(1,621)
Balance as of December 31, 2013	100,000	15,912	339,360	600,888	--	1,056,160
Net income	--	--	--	117,389	--	117,389
Other comprehensive income	--	--	--	--	82	82
Net surplus allocated under nonqualified patronage program	--	--	60,004	(60,004)	--	--
Redemption of prior year allocated patronage	--	--	(28,360)	--	--	(28,360)
Preferred stock dividend	--	--	--	(6,749)	--	(6,749)
Other distribution	--	--	--	(609)	--	(609)
Capital stock and participation certificates issued	--	1,522	--	--	--	1,522
Capital stock and participation certificates retired	--	(1,257)	--	--	--	(1,257)
Balance as of December 31, 2014	100,000	16,177	371,004	650,915	82	1,138,178
Net income	**--**	**--**	**--**	**123,902**	**--**	**123,902**
Other comprehensive income	**--**	**--**	**--**	**--**	**(82)**	**(82)**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**62,908**	**(62,908)**	**--**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(27,154)**	**--**	**--**	**(27,154)**
Preferred stock dividend	**--**	**--**	**--**	**(6,750)**	**--**	**(6,750)**
Other distribution	**--**	**--**	**--**	**(868)**	**--**	**(868)**
Capital stock and participation certificates issued	**--**	**1,337**	**--**	**--**	**--**	**1,337**
Capital stock and participation certificates retired	**--**	**(1,429)**	**--**	**--**	**--**	**(1,429)**
Balance as of December 31, 2015	**$ 100,000**	**$ 16,085**	**$ 406,758**	**$ 704,291**	**$ --**	**$ 1,227,134**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgStar Financial Services, ACA

(in thousands)

For the year ended December 31		2015		2014		2013
Cash flows from operating activities						
Net income	**$**	**123,902**	$	117,389	$	116,130
Depreciation on premises and equipment		**4,245**		4,358		4,853
Gain on sale of premises and equipment		**(537)**		(607)		(760)
Depreciation on assets held for lease		**9,127**		8,882		8,405
Gain on disposal of assets held for lease		**(153)**		(59)		(119)
Increase in loans held for sale, net		**(27,481)**		(3,429)		(4,470)
Amortization of premiums on loans and investment securities		**2,862**		2,215		1,160
Amortization of debt issuance costs		**122**		122		122
Provision for (reversal of) loan losses		**5,939**		1,084		(3,078)
Stock patronage received from Farm Credit Institutions		**(123)**		(4,258)		(8,822)
(Gain) loss on other property owned		**(484)**		(567)		2,004
Loss on derivative activities		**709**		558		--
Gain on sale of investments		**(355)**		--		--
Changes in operating assets and liabilities:						
Increase in accrued interest receivable		**(4,268)**		(6,386)		(5,373)
Decrease (increase) in other assets		**485**		(4,009)		(791)
Increase in accrued interest payable		**2,438**		1,580		159
(Decrease) increase in other liabilities		**(9,169)**		5,896		5,171
Net cash provided by operating activities		**107,259**		122,769		114,591
Cash flows from investing activities						
Increase in loans, net		**(675,063)**		(540,067)		(450,225)
(Purchases) redemptions of investment in AgriBank, FCB, net		**(29,296)**		12,145		(83)
(Purchases) redemptions of investment in other Farm Credit Institutions, net		**(1,907)**		49		83
(Increase) decrease in investment securities, net		**(17,608)**		(21,820)		20,294
Proceeds from the sale of investment securities		**53,670**		--		--
Purchases of derivatives, net		**(741)**		--		--
Purchases of assets held for lease, net		**(5,804)**		(13,937)		(9,442)
Proceeds from sales of other property owned		**3,835**		4,050		7,501
Purchases of premises and equipment, net		**(4,392)**		(4,346)		(2,758)
(Increase) decrease in restricted cash		**(1,927)**		(1,228)		218
Net cash used in investing activities		**(679,233)**		(565,154)		(434,412)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**609,082**		478,249		251,946
Patronage distributions paid		**(28,022)**		(28,969)		(25,115)
Preferred stock issued, net		**--**		--		96,299
Preferred stock dividend paid		**(6,750)**		(6,749)		(3,132)
Capital stock and participation certificates retired, net		**(436)**		(146)		(177)
Net cash provided by financing activities		**573,874**		442,385		319,821
Net change in cash		**1,900**		--		--
Cash at beginning of year		**--**		--		--
Cash at end of year	**$**	**1,900**	$	--	$	--
Supplemental schedule of non-cash activities						
Stock financed by loan activities	**$**	**820**	$	884	$	1,024
Stock applied against loan principal		**464**		465		582
Stock applied against interest		**12**		8		8
Interest transferred to loans		**421**		935		938
(Decrease) increase in equity from investment securities		**(82)**		82		--
Loans transferred to other property owned		**1,557**		3,500		2,821
Financed sales of other property owned		**286**		192		138
Deferred gain related to financed sales of other property owned		**--**		--		51
(Increase) decrease in payable to Farmer Mac not yet settled		**(1,927)**		(1,228)		218
Supplemental information						
Interest paid	**$**	**106,892**	$	99,537	$	95,651
Taxes paid (refunded), net		**3,433**		(284)		3,965

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AgStar Financial Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Association

AgStar Financial Services, ACA (the Association) and its subsidiaries, AgStar Financial Services, FLCA and AgStar Financial Services, PCA (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 member stockholders for qualified agricultural purposes in the counties of Aitkin, Anoka, Benton, Blue Earth, Brown, Carlton, Carver, Cass, Chisago, Cook, Cottonwood, Crow Wing, Dakota, Dodge, Faribault, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Isanti, Itasca, Jackson, Kanabec, Lake, LeSueur, McLeod, Martin, Mille Lacs, Morrison, Mower, Murray, Nicollet, Nobles, Olmsted, Pine, Pipestone, Ramsey, Rice, Rock, St. Louis, Scott, Sibley, Sherburne, Stearns, Steele, southern Todd, Wabasha, Waseca, Washington, Watonwan, Winona, and Wright counties in the state of Minnesota and Ashland, Barron, Bayfield, Burnett, Chippewa, Douglas, Dunn, Eau Claire, Iron, Pepin, Pierce, Polk, Rusk, St. Croix, Sawyer, and Washburn counties in the state of Wisconsin.

We borrow from AgriBank, FCB (AgriBank) and provide financing and related services to our clients. Our ACA holds all the stock of the FLCA and PCA subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate, rural home, and part-time farmer mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans and holds certain types of investments. We also service certain loans.

We offer various risk management services, including credit life, term life, credit disability, title, crop hail, and multi-peril crop insurance for clients and those eligible to borrow. We also offer services, such as fee appraisals, cash management, commodity price hedging, farm business consulting, producer education, auction clerking, title search, and fleet management services to our clients.

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 January 1, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 customer-owned cooperative lending institutions (associations). AgriBank, a System bank, and its affiliated Associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2016, 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.

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.

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

Principles of Consolidation

The Consolidated Financial Statements present the consolidated financial results of AgStar Financial Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans Held to Maturity: 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. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally 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 formally restructured loan for regulatory purposes. 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 (as defined below).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

Loans Held for Sale: Loans held for sale include rural residential mortgages originated for sale. We elected the fair value option for all loans held for sale. Loans are valued on an individual basis and gains or losses are recorded in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. Direct loan origination costs and fees for loans held for sale are recognized in income at origination. Interest income on loans held for sale is calculated based upon the note rate of the loan and is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income.

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. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

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 collectability 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 (reversal of) loan losses" in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

Investment in AgriBank: 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. Those investments for which we have the positive intent and ability to hold to maturity 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 "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive 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.

Other investment securities may not necessarily be held-to-maturity and, accordingly, have been classified as available-for-sale. These investments are reported at fair value, and unrealized holding gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of equity in Accumulated Other Comprehensive Income in the Consolidated Statements of Condition. Changes in the fair value of investment securities are reflected as direct charges or credits to other comprehensive income, unless the security is deemed to be other-than-temporarily impaired. When other-than-temporary impairment exists and we do not intend to sell the impaired debt security, nor are we more likely than not to be required to sell the security before recovery, we separate the loss into credit-related and non-credit-related components. If a security is deemed to be other-than-temporarily impaired, the security is written down to fair value, the credit-related component is recognized through earnings and the non-credit-related component is recognized in other comprehensive income.

Purchased premiums and discounts are amortized over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

Other Investment: The carrying amount of the investment in the Rural Business Investment Company, for which we are a limited partner and hold a non-controlling interest, is at cost and is included in "Other assets" in the Consolidated Statements of Condition. The investment is assessed for impairment. If impairment exists, losses are included in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income in the year of impairment. Income on the investment is limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

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 "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in the Consolidated Statements of Comprehensive 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 "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income.

Leases: We have finance, conditional sales, and operating leases. Under finance and conditional sales 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 and conditional sales leases is included in "Loans held to maturity" 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 in "Net operating lease income" in the Consolidated Statements of Comprehensive Income. We charge depreciation and other expenses against revenue as incurred. 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 "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. 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. Benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District nonqualified 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.

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.

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 for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match.

Income Taxes: The ACA and PCA accrue federal and certain state income taxes. The ACA and PCA are exempt from Minnesota state income tax. 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 have a nonqualified patronage program that requires the allocation of earnings for each fiscal year provided all statutory and regulatory capital requirements have been met. Nonqualified patronage distributions do not qualify as a deduction from our taxable income, and the client receiving it does not record it as taxable income, until it is redeemed at some future date. The redemption of nonqualified patronage distributions is at the discretion of the Board of Directors.

Commitments to Extend Credit: Unfunded commitments for residential mortgages intended to be held for sale are considered derivatives and recorded in the Consolidated Statements of Condition at fair value with changes in fair value recorded in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. All other unfunded loan commitments are not considered derivatives. Reserves for credit exposure on all other unfunded credit commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Derivatives: We are party to derivative financial instruments called "to be announced" securities (TBAs) to manage exposure to interest rate risk and changes in the fair value of investments available for sale, loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined.

In accordance with Financial Accounting Standards Board (FASB) guidance on "Accounting for Derivative Instruments and Hedging Activities", derivatives are recorded on the Consolidated Statements of Condition as Other assets or Other liabilities on a net basis, measured at fair value. These derivatives are designed as hedging instruments and, accordingly, changes in fair value are accounted for as gains or losses through earnings in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. Losses resulting from counterparty risk are accounted for as a component of other comprehensive income, in the equity section of the Consolidated Statements of Condition.

Off-Balance Sheet Credit Exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on management's assessment, any reserve is recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss is recorded in "Provision for (reversal of) credit losses" in the Consolidated Statements of Comprehensive Income. However, no such reserve was necessary as of December 31, 2015, 2014, or 2013.

Cash: For purposes of reporting cash flow, cash includes cash on hand and deposits in banks.

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

Level 1 — Unadjusted 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:

- 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
- 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. Except as noted below, no accounting pronouncements were adopted during 2015.

In February 2016, the FASB issued guidance entitled, "Leases." The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. The guidance is effective for public entities for annual reporting periods beginning after December 15, 2018 and interim periods during that year. Early adoption is permitted and modified retrospective adoption is required. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

In January 2016, the FASB issued guidance entitled, "Recognition and Measurement of Financial Assets and Financial Liabilities." The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements. The guidance is effective for public entities for annual reporting periods beginning after December 15, 2017 including interim periods within that year. Early adoption is permitted for only a portion of the guidance, but that guidance does not apply to us. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, or financial statement disclosures.

In April 2015, the FASB issued guidance, "Interest-Imputation of Interest." The guidance requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). This guidance is effective for public entities for annual and interim periods beginning after December 15, 2015. Early adoption is allowed, including in any interim period. We adopted this guidance as of December 31, 2015 and implemented it retroactively. As a result, certain immaterial amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

In August 2014, the FASB issued guidance, "Presentation of Financial Statements-Going Concern." The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the Financial Statements are available to be issued, when applicable. Substantial doubt to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for all entities for interim and annual periods ending after December 15, 2016, and early application is permitted. We do not expect the adoption of this guidance to have an effect on our financial condition, results of operations, cash flows, or financial statement disclosures.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance is effective for public entities for the first interim reporting period within the annual reporting periods beginning after December 15, 2016. In July 2015 the FASB approved a one year deferral of the effective date. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition or our results of operations.

NOTE 3: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN LOSSES

We identified loans that required reclassification among the various loan type categories that are used to report disaggregated loan information in 2014 and 2013. We have evaluated the impact on the loan footnote disclosures and have concluded that these errors did not, individually or in the aggregate, result in a material misstatement of our previously issued consolidated financial statements. We concluded that a revision of loan type information for all years presented in the 2015 Annual Report was appropriate. As such, the revisions are reflected in the financial information of the applicable prior periods. The revisions had no impact on our financial position, results of operations, or regulatory capital ratios as of December 31, 2014, and 2013.

The following tables present the effect of these revisions of the disclosure of the summary of loans outstanding as of December 31, 2014 and 2013. Other disclosures included in the 2015 Annual Report have also been revised to consistently present the changes in classification.

(in thousands) As of December 31, 2014	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 3,473,882	$ (2,800)	$ 3,471,082
Production and intermediate term	1,927,376	1,146	1,928,522
Agribusiness	718,870	(120,616)	598,254
Other	779,518	122,270	901,788
Total	$ 6,899,646	$ --	$ 6,899,646

As of December 31, 2013	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 3,253,439	$ 1,966	$ 3,255,405
Production and intermediate term	1,770,700	(4,077)	1,766,623
Agribusiness	638,637	(109,519)	529,118
Other	700,736	111,630	812,366
Total	$ 6,363,512	$ --	$ 6,363,512

Loans by Type

(dollars in thousands)	**2015**		2014		2013	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 3,675,008**	**48.5%**	$ 3,471,082	50.3%	$ 3,255,405	51.2%
Production and intermediate term	**2,020,921**	**26.7%**	1,928,522	28.0%	1,766,623	27.8%
Agribusiness	**920,347**	**12.2%**	598,254	8.7%	529,118	8.3%
Other	**955,766**	**12.6%**	901,788	13.0%	812,366	12.7%
Total	**$ 7,572,042**	**100.0%**	$ 6,899,646	100.0%	$ 6,363,512	100.0%

The other category is primarily comprised of energy, communication, rural residential real estate, and international related loans as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

Portfolio Concentrations

We have borrower, agricultural, and geographic concentrations.

As of December 31, 2015, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.3% of total loans and commitments.

Agricultural Concentrations

As of December 31	**2015**	2014	2013
Cash grains	**34.4%**	37.3%	36.6%
Agribusiness	**16.3%**	14.3%	12.7%
Swine	**10.0%**	10.2%	11.5%
Dairy	**8.7%**	8.9%	8.9%
Home mortgages	**7.8%**	8.6%	9.5%
Cattle	**5.1%**	4.4%	3.7%
Forest products	**4.3%**	3.0%	3.4%
Landlords	**3.1%**	3.4%	3.7%
Renewable energy	**2.8%**	2.8%	3.5%
Other	**7.5%**	7.1%	6.5%
Total	**100.0%**	100.0%	100.0%

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. In addition, a certain portion of our loans are guaranteed by the Federal Agricultural Mortgage Corporation (Farmer Mac) or U.S. government agencies. This reduces our exposure to credit loss associated with our lending activities. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property. FCA regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value at origination and our underwriting standards generally limit lending to no more than 65 percent at origination. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the lender in the collateral, may result in loan-to-value ratios in excess of the regulatory maximum. The District has an internally maintained database which uses market data to estimate market values of collateral for a significant portion of the real estate mortgage portfolio. 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.

Participations Purchased and Sold

(in thousands)	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2015	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (326,933)**	**$ 255,474**	**$ (64,847)**	**$ 1,039,332**	**$ (13,409)**	**$ 1,294,806**	**$ (405,189)**
Production and intermediate term	**--**	**(53,650)**	**15,620**	**(891,700)**	**1,184,955**	**--**	**1,200,575**	**(945,350)**
Agribusiness	**--**	**(20,790)**	**356,847**	**(29,447)**	**291,986**	**(22,767)**	**648,833**	**(73,004)**
Other	**--**	**(7,556)**	**542,550**	**(41,777)**	**15,998**	**(25,391)**	**558,548**	**(74,724)**
Total	**$ --**	**$ (408,929)**	**$ 1,170,491**	**$ (1,027,771)**	**$ 2,532,271**	**$ (61,567)**	**$ 3,702,762**	**$ (1,498,267)**

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2014	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (176,904)	$ 247,144	$ (86,245)	$ 913,204	$ (14,096)	$ 1,160,348	$ (277,245)
Production and intermediate term	--	(65,838)	28,600	(980,300)	1,241,226	(782)	1,269,826	(1,046,920)
Agribusiness	--	(31,821)	250,354	(24,737)	157,898	(29,685)	408,252	(86,243)
Other	--	(18,597)	506,935	(19,765)	18,404	(15,175)	525,339	(53,537)
Total	$ --	$ (293,160)	$ 1,033,033	$ (1,111,047)	$ 2,330,732	$ (59,738)	$ 3,363,765	$ (1,463,945)

As of December 31, 2013	AgriBank Participations Purchased	AgriBank Participations Sold	Other Farm Credit Institutions Participations Purchased	Other Farm Credit Institutions Participations Sold	Non-Farm Credit Institutions Participations Purchased	Non-Farm Credit Institutions Participations Sold	Total Participations Purchased	Total Participations Sold
Real estate mortgage	$ --	$ (195,942)	$ 189,199	$ (111,410)	$ 839,959	$ (16,186)	$ 1,029,158	$ (323,538)
Production and intermediate term	--	(98,586)	44,695	(969,587)	1,141,776	(3,085)	1,186,471	(1,071,258)
Agribusiness	--	(60,348)	183,870	(65,041)	122,741	(106,403)	306,611	(231,792)
Other	--	(19,365)	451,882	(9,375)	7,301	(7,015)	459,183	(35,755)
Total	$ --	$ (374,241)	$ 869,646	$ (1,155,413)	$ 2,111,777	$ (132,689)	$ 2,981,423	$ (1,662,343)

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 in existing factors, conditions, and values that make collection in full highly questionable
- Loss: loans are considered uncollectible

We had no loans categorized as loss at December 31, 2015, 2014, or 2013.

Credit Quality of Loans

(dollars in thousands)

As of December 31, 2015	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate mortgage	**$ 3,564,761**	**96.2%**	**$ 85,808**	**2.3%**	**$ 56,311**	**1.5%**	**$ 3,706,880**	**100.0%**
Production and intermediate term	**1,962,292**	**96.3%**	**33,079**	**1.6%**	**43,275**	**2.1%**	**2,038,646**	**100.0%**
Agribusiness	**891,229**	**96.6%**	**14,207**	**1.5%**	**17,267**	**1.9%**	**922,703**	**100.0%**
Other	**916,462**	**95.7%**	**20,813**	**2.2%**	**20,517**	**2.1%**	**957,792**	**100.0%**
Total	**$ 7,334,744**	**96.2%**	**$ 153,907**	**2.0%**	**$ 137,370**	**1.8%**	**$ 7,626,021**	**100.0%**

As of December 31, 2014	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate mortgage	$ 3,355,586	95.8%	$ 72,751	2.1%	$ 72,453	2.1%	$ 3,500,790	100.0%
Production and intermediate term	1,886,643	97.0%	30,987	1.6%	27,295	1.4%	1,944,925	100.0%
Agribusiness	588,941	98.1%	1,570	0.3%	9,851	1.6%	600,362	100.0%
Other	871,458	96.5%	18,994	2.1%	13,036	1.4%	903,488	100.0%
Total	$ 6,702,628	96.4%	$ 124,302	1.8%	$ 122,635	1.8%	$ 6,949,565	100.0%

As of December 31, 2013	Acceptable Amount	Acceptable %	OAEM Amount	OAEM %	Substandard/ Doubtful Amount	Substandard/ Doubtful %	Total Amount	Total %
Real estate mortgage	$ 3,118,928	95.0%	$ 48,033	1.5%	$ 114,750	3.5%	$ 3,281,711	100.0%
Production and intermediate term	1,699,877	95.4%	40,108	2.3%	41,670	2.3%	1,781,655	100.0%
Agribusiness	476,023	89.7%	37,933	7.1%	16,821	3.2%	530,777	100.0%
Other	792,374	97.3%	6,501	0.8%	15,372	1.9%	814,247	100.0%
Total	$ 6,087,202	95.0%	$ 132,575	2.1%	$ 188,613	2.9%	$ 6,408,390	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands)

As of December 31, 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 Loans		90 Days Past Due and Accruing
Real estate mortgage	**$**	**12,952**	**$**	**4,039**	**$**	**16,991**	**$**	**3,689,889**	**$**	**3,706,880**	**$**	**27**
Production and intermediate term		**3,409**		**6,890**		**10,299**		**2,028,347**		**2,038,646**		**28**
Agribusiness		**98**		**--**		**98**		**922,605**		**922,703**		**--**
Other		**3,366**		**1,549**		**4,915**		**952,877**		**957,792**		**69**
Total	**$**	**19,825**	**$**	**12,478**	**$**	**32,303**	**$**	**7,593,718**	**$**	**7,626,021**	**$**	**124**

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 Loans		90 Days Past Due and Accruing
Real estate mortgage	$	14,289	$	7,035	$	21,324	$	3,479,466	$	3,500,790	$	282
Production and intermediate term		3,181		2,599		5,780		1,939,145		1,944,925		7
Agribusiness		1,984		--		1,984		598,378		600,362		--
Other		2,666		1,091		3,757		899,731		903,488		15
Total	$	22,120	$	10,725	$	32,845	$	6,916,720	$	6,949,565	$	304

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 mortgage	$	13,994	$	16,622	$	30,616	$	3,251,095	$	3,281,711	$	--
Production and intermediate term		4,690		2,479		7,169		1,774,486		1,781,655		--
Agribusiness		--		--		--		530,777		530,777		--
Other		2,498		12,076		14,574		799,673		814,247		--
Total	$	21,182	$	31,177	$	52,359	$	6,356,031	$	6,408,390	$	--

Risk Loans

Risk loans (accruing loans include accrued interest receivable) are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

Risk Loan Information

(in thousands)

As of December 31		**2015**		2014		2013
Nonaccrual loans:						
Current as to principal and interest	**$**	**33,773**	$	37,174	$	102,081
Past due		**15,124**		14,165		37,316
Total nonaccrual loans		**48,897**		51,339		139,397
Accruing restructured loans		**21,072**		22,892		2,101
Accruing loans 90 days or more past due		**124**		304		--
Total risk loans	**$**	**70,093**	$	74,535	$	141,498
Volume with specific reserves	**$**	**4,785**	$	8,779	$	26,540
Volume without specific reserves		**65,308**		65,756		114,958
Total risk loans	**$**	**70,093**	$	74,535	$	141,498
Total specific reserves	**$**	**2,230**	$	3,098	$	5,841

For the year ended December 31		**2015**		2014		2013
Income on accrual risk loans	**$**	**1,321**	$	690	$	327
Income on nonaccrual loans		**7,198**		5,735		5,344
Total income on risk loans	**$**	**8,519**	$	6,425	$	5,671
Average recorded risk loans	**$**	**76,997**	$	104,172	$	165,888

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. This agreement remains in place until the loan is paid in full. We had $470.2 million, $469.7 million, and $426.8 million of our loans in this program at December 31, 2015, 2014, and 2013, respectively. Fees paid to Farmer Mac for these commitments totaled $2.0 million, $2.0 million, and $1.6 million in 2015, 2014, and 2013, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income. There were no sales of loans to Farmer Mac under this agreement in 2015, 2014, and 2013.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	**2015**	2014	2013
Real estate mortgage	**$ 22,573**	$ 25,652	$ 92,458
Production and intermediate term	**14,193**	13,644	32,305
Agribusiness	**356**	19	13
Other	**11,775**	12,024	14,621
Total	**$ 48,897**	$ 51,339	$ 139,397

Accruing Loans 90 Days or More Past Due by Loan Type

(in thousands)

As of December 31	**2015**	2014	2013
Real estate mortgage	**$ 27**	$ 282	$ --
Production and intermediate term	**28**	7	--
Other	**69**	15	--
Total	**$ 124**	$ 304	$ --

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.

Additional Impaired Loan Information by Loan Type

(in thousands)	**As of December 31, 2015**			**For the year ended December 31, 2015**	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	**$ 1,423**	**$ 1,513**	**$ 370**	**$ 1,548**	**$ --**
Production and intermediate term	**2,297**	**2,458**	**1,459**	**2,580**	**--**
Agribusiness	**--**	**--**	**--**	**980**	**--**
Other	**1,065**	**1,092**	**401**	**955**	**--**
Total	**$ 4,785**	**$ 5,063**	**$ 2,230**	**$ 6,063**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 38,357**	**$ 61,954**	**$ --**	**$ 41,704**	**$ 6,291**
Production and intermediate term	**15,811**	**38,058**	**--**	**17,760**	**1,771**
Agribusiness	**356**	**586**	**--**	**437**	**12**
Other	**10,784**	**13,554**	**--**	**11,033**	**445**
Total	**$ 65,308**	**$ 114,152**	**$ --**	**$ 70,934**	**$ 8,519**
Total impaired loans:					
Real estate mortgage	**$ 39,780**	**$ 63,467**	**$ 370**	**$ 43,252**	**$ 6,291**
Production and intermediate term	**18,108**	**40,516**	**1,459**	**20,340**	**1,771**
Agribusiness	**356**	**586**	**--**	**1,417**	**12**
Other	**11,849**	**14,646**	**401**	**11,988**	**445**
Total	**$ 70,093**	**$ 119,215**	**$ 2,230**	**$ 76,997**	**$ 8,519**

	As of December 31, 2014			For the year ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 4,845	$ 5,583	$ 1,482	$ 5,165	$ --
Production and intermediate term	3,190	3,314	1,331	4,028	--
Agribusiness	--	--	--	--	--
Other	744	803	285	555	--
Total	$ 8,779	$ 9,700	$ 3,098	$ 9,748	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 39,586	$ 66,137	$ --	$ 54,923	$ 5,035
Production and intermediate term	14,857	37,282	--	21,209	1,330
Agribusiness	19	64	--	10	7
Other	11,294	13,573	--	18,282	53
Total	$ 65,756	$ 117,056	$ --	$ 94,424	$ 6,425
Total impaired loans:					
Real estate mortgage	$ 44,431	$ 71,720	$ 1,482	$ 60,088	$ 5,035
Production and intermediate term	18,047	40,596	1,331	25,237	1,330
Agribusiness	19	64	--	10	7
Other	12,038	14,376	285	18,837	53
Total	$ 74,535	$ 126,756	$ 3,098	$ 104,172	$ 6,425

	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 mortgage	$ 14,316	$ 15,814	$ 3,176	$ 18,886	$ --
Production and intermediate term	1,865	2,529	868	1,890	--
Agribusiness	--	--	--	--	--
Other	10,359	10,587	1,797	10,575	--
Total	$ 26,540	$ 28,930	$ 5,841	$ 31,351	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 80,133	$ 113,136	$ --	$ 91,026	$ 4,235
Production and intermediate term	30,550	53,380	--	30,697	1,022
Agribusiness	13	60	--	1,328	192
Other	4,262	5,121	--	11,486	222
Total	$ 114,958	$ 171,697	$ --	$ 134,537	$ 5,671
Total impaired loans:					
Real estate mortgage	$ 94,449	$ 128,950	$ 3,176	$ 109,912	$ 4,235
Production and intermediate term	32,415	55,909	868	32,587	1,022
Agribusiness	13	60	--	1,328	192
Other	14,621	15,708	1,797	22,061	222
Total	$ 141,498	$ 200,627	$ 5,841	$ 165,888	$ 5,671

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, 2015.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings (TDRs). 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 TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)	**2015**		2014		2013	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 766**	**$ 535**	$ 736	$ 594	$ 8,658	$ 8,651
Production and intermediate term	**1,072**	**1,074**	499	500	11,690	11,698
Other	**--**	**--**	190	190	9,140	9,140
Total	**$ 1,838**	**$ 1,609**	$ 1,425	$ 1,284	$ 29,488	$ 29,489

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 included deferral of principal and interest rate reduction below market.

We had TDRs of $32 thousand in the production and intermediate term loan category and $25 thousand in the real estate mortgage loan category that defaulted during the years ended December 31, 2015 and 2013, respectively in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the year ended December 31, 2014 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	**2015**	2014	2013
Accrual status:			
Real estate mortgage	**$ 17,193**	$ 18,494	$ 1,991
Production and intermediate term	**3,879**	4,398	110
Other	**--**	--	--
Total TDRs in accrual status	**$ 21,072**	$ 22,892	$ 2,101
Nonaccrual status:			
Real estate mortgage	**$ 4,929**	$ 6,835	$ 29,194
Production and intermediate term	**5,582**	5,709	16,552
Other	**8,407**	8,788	9,115
Total TDRs in nonaccrual status	**$ 18,918**	$ 21,332	$ 54,861
Total TDRs:			
Real estate mortgage	**$ 22,122**	$ 25,329	$ 31,185
Production and intermediate term	**9,461**	10,107	16,662
Other	**8,407**	8,788	9,115
Total TDRs	**$ 39,990**	$ 44,224	$ 56,962

Current year activity was largely due to concessions given to clients in our cash grains portfolio. The decrease in outstanding TDR volume is mainly the result of paydowns and payoffs in our dairy portfolio.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $2.1 million at December 31, 2015.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2015**	2014	2013
Balance at beginning of year	**$ 23,655**	$ 24,725	$ 26,814
Provision for (reversal of) loan losses	**5,939**	1,084	(3,078)
Loan recoveries	**870**	2,298	6,026
Loan charge-offs	**(3,393)**	(4,452)	(5,037)
Balance at end of year	**$ 27,071**	$ 23,655	$ 24,725

The increase in our allowance for loan losses, which resulted in additional provision for loan losses, was due to continued stress in the cash grains segment of our portfolio.

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	**$ 10,662**	**$ 8,605**	**$ 1,498**	**$ 2,890**	**$ 23,655**
Provision for loan losses	**613**	**3,574**	**1,041**	**711**	**5,939**
Loan recoveries	**355**	**434**	**--**	**81**	**870**
Loan charge-offs	**(1,008)**	**(2,064)**	**(216)**	**(105)**	**(3,393)**
Balance as of December 31, 2015	**$ 10,622**	**$ 10,549**	**$ 2,323**	**$ 3,577**	**$ 27,071**
Ending balance: individually evaluated for impairment	**$ 370**	**$ 1,459**	**$ --**	**$ 401**	**$ 2,230**
Ending balance: collectively evaluated for impairment	**$ 10,252**	**$ 9,090**	**$ 2,323**	**$ 3,176**	**$ 24,841**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2015	**$ 3,706,880**	**$ 2,038,646**	**$ 922,703**	**$ 957,792**	**$ 7,626,021**
Ending balance: individually evaluated for impairment	**$ 39,780**	**$ 18,108**	**$ 356**	**$ 11,849**	**$ 70,093**
Ending balance: collectively evaluated for impairment	**$ 3,667,100**	**$ 2,020,538**	**$ 922,347**	**$ 945,943**	**$ 7,555,928**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2013	$ 10,418	$ 7,345	$ 2,592	$ 4,370	$ 24,725
Provision for (reversal of) loan losses	1,040	1,581	(1,094)	(443)	1,084
Loan recoveries	958	1,037	--	303	2,298
Loan charge-offs	(1,754)	(1,358)	--	(1,340)	(4,452)
Balance as of December 31, 2014	$ 10,662	$ 8,605	$ 1,498	$ 2,890	$ 23,655
Ending balance: individually evaluated for impairment	$ 1,482	$ 1,331	$ --	$ 285	$ 3,098
Ending balance: collectively evaluated for impairment	$ 9,180	$ 7,274	$ 1,498	$ 2,605	$ 20,557
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2014	$ 3,500,790	$ 1,944,925	$ 600,362	$ 903,488	$ 6,949,565
Ending balance: individually evaluated for impairment	$ 44,431	$ 18,047	$ 19	$ 12,038	$ 74,535
Ending balance: collectively evaluated for impairment	$ 3,456,359	$ 1,926,878	$ 600,343	$ 891,450	$ 6,875,030

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2012	$ 12,844	$ 8,060	$ 2,847	$ 3,063	$ 26,814
(Reversal of) provision for loan losses	(5,171)	(84)	75	2,102	(3,078)
Loan recoveries	4,421	881	339	385	6,026
Loan charge-offs	(1,676)	(1,512)	(669)	(1,180)	(5,037)
Balance as of December 31, 2013	$ 10,418	$ 7,345	$ 2,592	$ 4,370	$ 24,725
Ending balance: individually evaluated for impairment	$ 3,176	$ 868	$ --	$ 1,797	$ 5,841
Ending balance: collectively evaluated for impairment	$ 7,242	$ 6,477	$ 2,592	$ 2,573	$ 18,884
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2013	$ 3,281,711	$ 1,781,655	$ 530,777	$ 814,247	$ 6,408,390
Ending balance: individually evaluated for impairment	$ 94,449	$ 32,415	$ 13	$ 14,621	$ 141,498
Ending balance: collectively evaluated for impairment	$ 3,187,262	$ 1,749,240	$ 530,764	$ 799,626	$ 6,266,892

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.

NOTE 4: LOANS HELD FOR SALE

Loans Held for Sale Activity, at Fair Value

(in thousands) For the year ended December 31	**2015**	2014	2013
Balance at beginning of year	**$ 7,899**	$ 4,470	$ --
Originations/reclassifications	**66,349**	27,529	4,455
Proceeds on sales	**(38,938)**	(24,171)	--
Fair value adjustments	**70**	71	15
Balance at end of year	**$ 35,380**	$ 7,899	$ 4,470

"Loans held for sale" are on our Consolidated Statements of Condition. These represent mortgage loans whereby the interest rate is set prior to funding. We are subject to the effects of changes in mortgage interest rates from the date of the interest rate lock commitment through the sale of the loan to a third party investor. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the interest rate lock commitment through the interest rate lock commitment cancellation or expiration date or through the date of sale to a third party investor. To minimize risk we use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk.

NOTE 5: INVESTMENT SECURITIES

We have held-to-maturity investment securities of $443.0 million, $460.9 million, and $462.4 million at December 31, 2015, 2014, and 2013, respectively. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by Farmer Mac or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA)
- Asset-backed securities (ABS) guaranteed by SBA or USDA
- Municipal bonds

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be comprised of either MBS or ABS. All of our held-to-maturity investment securities, except $4.9 million, were fully guaranteed by Farmer Mac, SBA, or USDA at December 31, 2015. All of our investment securities were fully guaranteed as of December 31, 2014, and 2013.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of December 31, 2015**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$ 396,433**	**$ 1,542**	**$ (9,213)**	**$ 388,762**	**3.6%**
ABS	**41,603**	**1**	**(2,376)**	**39,228**	**1.9%**
Municipal bonds	**4,936**	**--**	**(251)**	**4,685**	**6.4%**
Total	**$ 442,972**	**$ 1,543**	**$ (11,840)**	**$ 432,675**	**3.5%**

As of December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 414,902	$ 2,704	$ (9,435)	$ 408,171	3.8%
ABS	46,037	17	(2,299)	43,755	2.2%
Total	$ 460,939	$ 2,721	$ (11,734)	$ 451,926	3.7%

As of December 31, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 419,605	$ 2,475	$ (11,894)	$ 410,186	4.1%
ABS	42,819	86	(1,317)	41,588	2.2%
Total	$ 462,424	$ 2,561	$ (13,211)	$ 451,774	3.9%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $14.6 million, $15.9 million, and $16.9 million in 2015, 2014, and 2013, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of December 31, 2015**	Amortized Cost
Less than one year	**$ 781**
One to five years	**30,138**
Five to ten years	**69,279**
More than ten years	**342,774**
Total	**$ 442,972**

A summary of held-to-maturity investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows:

(in thousands)	Less than 12 months		Greater than 12 months	
As of December 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$ 100,500**	**$ 2,221**	**$ 152,190**	**$ 6,992**
ABS	**10,221**	**538**	**27,360**	**1,838**
Municipal bond	**4,665**	**251**	**--**	**--**
Total	**$ 115,386**	**$ 3,010**	**$ 179,550**	**$ 8,830**

	Less than 12 months		Greater than 12 months	
As of December 31, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$ 54,047	$ 3,257	$ 157,552	$ 6,178
ABS	19,232	1,196	19,444	1,103
Total	$ 73,279	$ 4,453	$ 176,996	$ 7,281

	Less than 12 months		Greater than 12 months	
As of December 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$ 185,749	$ 7,114	$ 65,088	$ 4,780
ABS	12,287	412	21,735	905
Total	$ 198,036	$ 7,526	$ 86,823	$ 5,685

Unrealized losses greater than 12 months associated with held-to-maturity investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by Farmer Mac, SBA, or USDA. However, the premiums paid to purchase the investment are not guaranteed and are amortized over the maturity of each loan on a straight-line basis as a reduction of interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee. At December 31, 2015, the majority of the $8.8 million unrealized loss greater than 12 months represents unamortized premium.

We held investment securities available-for-sale, consisting of MBS, with a fair value of $21.0 million at December 31, 2014.The contractual maturities were all more than ten years at December 31, 2014. We had no outstanding available-for-sale investment securities at December 31, 2015. We had no investment securities available-for-sale during 2013.

Additional Available-for-Sale Investment Securities Information

(in thousands) For the year ended December 31	**2015**	2014
Proceeds from sales	**$ 53,670**	$ --
Realized gains on sales, net	**355**	--
Unrealized gains	**--**	82

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

NOTE 6: OTHER INVESTMENT

We and other Farm Credit Institutions are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC facilitates equity and debt investments in agriculture-related businesses that create growth and job opportunities in rural America. Our total commitment is $20.0 million through October 2019. The RBIC investment increased due to capital calls to fund new investments during 2015. Our investment in the RBIC totaled $4.2 million and $0.8 million at December 31, 2015 and 2014, respectively.

The investment was evaluated for impairment. No impairments were recognized on this investment during 2015 or 2014. We have not received any distributions from the fund during the years ended December 31, 2015 or 2014.

NOTE 7: INVESTMENT IN AGRIBANK

As of December 31, 2015, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5% plus an additional 1.0% on growth that exceeded a targeted rate.

As of December 31, 2015, 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 AgriBank Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $171.4 million, $142.1 million, and $150.0 million at December 31, 2015, 2014, and 2013, respectively.

NOTE 8: ASSETS HELD FOR LEASE, NET

We hold property for agricultural leasing, primarily farm equipment and facilities.

Net Operating Lease Income and Property Held for Lease by Major Category

(in thousands)	**2015**	2014	2013
For the year ended December 31:			
Net operating lease income	**$ 1,760**	$ 1,646	$ 1,634
As of December 31:			
Farm/vehicle equipment	**$ 39,946**	$ 41,402	$ 37,424
Facilities	**20,018**	20,662	17,095
Subtotal	**59,964**	62,064	54,519
Less: accumulated depreciation	**21,568**	20,498	18,067
Assets held for lease, net	**$ 38,396**	$ 41,566	$ 36,452

Expected Future Minimum Rentals

(in thousands)	Operating Leases
2016	$ 8,416
2017	6,710
2018	4,731
2019	2,646
2020	1,317
Thereafter	1,672
Total minimum future rentals	$ 25,492

NOTE 9: 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.

Note Payable Information

(dollars in thousands) As of December 31	**2015**	2014	2013
Line of credit	**$ 7,400,000**	$ 6,900,000	$ 6,500,000
Outstanding principal under the line of credit	**6,949,764**	6,340,682	5,862,433
Interest rate	**1.6%**	1.6%	1.6%

Our note payable matures March 31, 2016, 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, 2015, and throughout the year, we materially complied with the GFA terms and were not declared in default under any GFA covenants or provisions.

NOTE 10: SUBORDINATED DEBT

We have $100.0 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200.0 million for subordinated debt issuance. At our option, we may redeem all or some of the Notes, at any time on or after a date 10 years from the closing date (March 2010). This debt is subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. Proceeds have increased our regulatory permanent capital and total surplus ratios and position us for the future. Our subordinated debt is not considered System debt and is not an obligation of, nor guaranteed by any System entity. Further, payments on the subordinated Notes are not insured by the FCSIC.

We elected early adoption of the FASB issued guidance, “Interest–Imputation of Interest,” which required retroactive reclassification of debt issuance costs, formerly classified on the statement of condition in “Other assets,” to contra-liabilities on the statement of condition, consistent with the current year presentation.

NOTE 11: EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each client is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the client’s total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all clients to whom a lease is issued and of all non-stockholder clients who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The client 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 clients.

Regulatory Capitalization Requirements

Select Capital Ratios

As of December 31	Regulatory Minimums	**2015**	2014	2013
Permanent capital ratio	7.0%	**14.8%**	15.7%	15.4%
Total surplus ratio	7.0%	**14.5%**	15.4%	15.2%
Core surplus ratio	3.5%	**12.3%**	12.9%	12.5%

The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. 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.

Regulatory capital includes any 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, 2015, 2014, or 2013.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value, except the Series A-1 preferred stock, which is $1,000 par value.

	Number of Shares		
As of December 31	**2015**	2014	2013
Class B common stock (at-risk)	**2,970,136**	2,979,694	2,940,410
Class E participation certificates (at-risk)	**246,831**	255,752	242,091
Series A-1 preferred stock	**100,000**	100,000	100,000

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. We also are authorized to issue Class H preferred stock, an at-risk nonvoting stock with a $1.00 par value per share. Currently, no stock of these classes has been issued.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock. This series may be held or transferred in blocks having an aggregate par value of not less than $250,000 and an investor must hold at least 250 shares. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes.

Dividends on the Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the 15th day of February, May, August, and November, beginning on August 15, 2013. Dividends accrue at a fixed annual rate of 6.75% from the date of issuance through August 14, 2023, and beginning on August 15, 2023 will accrue at an annual rate equal to the 3-month USD LIBOR rate, reset quarterly, plus 4.58%. The Series A-1 preferred stock is not mandatorily redeemable at any time. However, the Series A-1 preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on August 15, 2023. In addition, the Series A-1 preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. Series A-1 preferred stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

The Series A-1 preferred stock is junior to any subordinated debt, existing and future debt obligations, and to any series of preferred stock we may issue in the future with priority rights. Series A-1 preferred stock is senior to outstanding Class B, C, or D common stock, Class E participation certificates, Class H preferred stock, and patronage equities. The Series A-1 preferred stock has a preference as to dividends and on liquidation or dissolution over all other classes of equities.

Only holders of Class B common stock have voting rights. Our bylaws allow us to pay dividends on any classes of stock. However, no stock dividends have been declared to date other than the Series A-1 preferred stock dividends.

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, 2015, 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 in the following order of priority:

- first, to holders of Series A-1 preferred stock,
- second, to holders of Class H preferred stock,
- third, to holders of Class B, C, and D common stock and Class E participation certificates pro rata to all such stock,
- fourth, to member stockholders who have received capital through patronage transactions pro rata to all such capital, and
- lastly, any remaining assets shall be distributed to current and former member stockholders based on relative patronage transactions.

In the event of impairment, losses will be absorbed by unallocated capital reserves, patronage equities, or the concurrent impairment of all classes of stock, in a manner deemed to be fair and equitable by the Board of Directors, provided that no shares of Class H preferred stock may be impaired until all other classes of stock and participation certificates are fully impaired, and provided further that no shares of Series A-1 preferred stock will be impaired until all classes of junior stock have been impaired in their entirety.

All classes of stock and participation certificates, other than Series A-1 preferred stock, are transferable to other clients who are eligible to hold such class of stock or participation certificates. Transfers of Class B common stock are subject to the approval of the Board of Directors. Transfers of Class C or D common stock or Class E participation certificates are only allowed if we meet the regulatory minimum capital requirements. Series A-1 preferred stock may only be transferred to qualified institutional buyers and institutional accredited investors, as those terms are defined by the Securities Act of 1933, as amended, and only in accordance with the terms and limitations of the Series A-1 preferred stock offering documents.

Patronage Distributions

We made net nonqualified patronage allocations of $62.9 million, $60.0 million, and $61.6 million in 2015, 2014, and 2013, respectively. Our nonqualified patronage allocation is based on a Board of Directors resolution requiring an allocation of annual net patronage-eligible earnings for each fiscal year. Patronage equities have no voting rights, are redeemed at the sole discretion of the Board of Directors and are transferable only if specifically authorized by the Board of Directors.

We have a nonqualified patronage program that targets payment to borrowers within 7-10 years after the year of declaration, subject to Board approval. The Board of Directors authorized the retirement of the remainder of the nonqualified patronage allocations of $28.2 million, $28.9 million, and $24.7 million in 2015, 2014, and 2013, respectively. In addition, the Board of Directors authorized the payment of $868 thousand, $609 thousand, and $88 thousand of dividends on approved transactions in 2015, 2014, and 2013, respectively. The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding the tax impact of our patronage distributions is included in Note 12.

We received a special stock patronage refund of $4.6 million from AgriBank on December 31, 2002. This stock received would be subject to tax only upon conversion to cash. Effective in 2002, our Board of Directors passed a resolution stating that, should we realize additional taxable income from the conversion of this stock, we will declare a patronage distribution to our member stockholders at such time in an amount equivalent to the amount of such additional taxable income realized.

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 2016.

NOTE 12: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands) For the year ended December 31		2015		2014		2013
Current:						
Federal	$	**3,624**	$	3,552	$	5,889
State		**190**		239		281
Total current	$	**3,814**	$	3,791	$	6,170
Deferred:						
Federal	$	**(2,978)**	$	(360)	$	(1,641)
State		**(138)**		29		(49)
Total deferred		**(3,116)**		(331)		(1,690)
Provision for income taxes	$	**698**	$	3,460	$	4,480
Effective tax rate		**0.6%**		2.9%		3.7%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(in thousands) For the year ended December 31		2015		2014		2013
Federal tax at statutory rates	$	**43,610**	$	42,297	$	42,214
State tax, net		**57**		111		122
Patronage distributions		**(8,538)**		(7,508)		(7,760)
Effect of non-taxable entity		**(32,706)**		(30,690)		(29,445)
Other		**(1,725)**		(750)		(651)
Provision for income taxes	$	**698**	$	3,460	$	4,480

Tax Related Matters

Tax reductions were recorded reflecting the 2006, 2005, and 2004 nonqualified patronage retired in the fourth quarters of 2015, 2014, and 2013, respectively. These reductions are reflected in the above table in the “Patronage distributions” adjustments.

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 Comprehensive 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

(in thousands) As of December 31		2015		2014		2013
Allowance for loan losses	$	**5,193**	$	4,306	$	4,351
Postretirement benefit accrual		**510**		485		462
Deferred fee income, net		**897**		695		654
Accrued incentive		**1,654**		1,378		1,186
Leasing related, net		**(11,396)**		(12,511)		(12,259)
Accrued patronage income not received		**(481)**		(702)		(934)
Depreciation		**(190)**		(212)		(280)
Other assets		**451**		409		331
Other liabilities		**(252)**		(578)		(572)
Deferred tax liabilities, net	$	**(3,614)**	$	(6,730)	$	(7,061)
Gross deferred tax assets	$	**8,705**	$	7,273	$	6,984
Gross deferred tax liabilities	$	**(12,319)**	$	(14,003)	$	(14,045)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2015, 2014, or 2013.

We have not provided for deferred income taxes on approximately $59.8 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. Also, we have not provided deferred income taxes on $4.6 million of patronage allocations in the form of AgriBank stock distributed in 2002 to the ACA and PCA. The Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $765.1 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to stockholders 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, 2015. In addition, we believe we are no longer subject to income tax examinations for years prior to 2012.

NOTE 13: 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 2015 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 multiple-employer defined benefit retirement plan. 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 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 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. Because of the 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.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	**2015**	2014	2013
Unfunded liability	**$ 453,825**	$ 423,881	$ 255,187
Projected benefit obligation	**1,255,259**	1,234,960	1,014,649
Fair value of plan assets	**801,434**	811,079	759,462
Accumulated benefit obligation	**1,064,133**	1,051,801	864,202

For the year ended December 31	**2015**	2014	2013
Total plan expense	**$ 63,800**	$ 45,827	$ 63,270
Our allocated share of plan expenses	**8,759**	6,449	8,844
Contributions by participating employers	**62,722**	52,032	59,046
Our allocated share of contributions	**8,619**	7,263	8,296

The unfunded liability 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 accumulated benefit obligation 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. 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. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

The plan expense for participating employers in 2015 increased to levels more consistent with 2013 primarily due to changes in discount rate and mortality assumptions. Benefits paid to participants in the District were $56.2 million in 2015. 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 2016 is $57.9 million. Our allocated share of these pension contributions is expected to be $7.7 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.

Nonqualified Retirement Plan: We also participate in the District-wide nonqualified 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.

Pension Restoration Plan Information

(in thousands)

As of December 31	2015	2014	2013
Unfunded liability	**$ 31,650**	$ 27,695	$ 25,263
Projected benefit obligation	**31,650**	27,695	25,263
Accumulated benefit obligation	**26,323**	22,959	19,799

For the year ended December 31	2015	2014	2013
Total plan expense	**$ 3,776**	$ 3,652	$ 3,577
Our allocated share of plan expenses	**595**	1,231	1,304
Our cash contributions	**216**	158	158

The nonqualified 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 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 participants in the plan. Our allocated share of plan expenses is included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee’s active status.

Retiree Medical Plan Information

(in thousands)

For the year ended December 31	2015	2014	2013
Postretirement benefit expense	**$ 275**	$ 166	$ 238
Our cash contributions	**139**	128	127

Postretirement benefit costs are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. Our cash contributions are equal to the benefits paid.

Defined Contribution Plans

We participate in a District-wide defined contribution 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 a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are 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 defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income, were $3.6 million, $3.4 million, and $3.2 million in 2015, 2014, and 2013, respectively. These expenses were equal to our cash contributions for each year.

Additionally, we participate in a District-wide Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

NOTE 14: 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 may be 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, 2015 involved more than a normal risk of collectability.

Related Party Loans and Leases Information

(in thousands)	**2015**	2014	2013
As of December 31:			
Total related party loans and leases	**$ 22,510**	$ 26,119	$ 28,770
For the year ended December 31:			
Advances to related parties	**$ 18,787**	$ 21,571	$ 18,826
Repayments by related parties	**18,063**	19,325	21,494

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans and leases in the preceding chart are related to those considered related parties at year end.

Additional transactions other than loans in the ordinary course of business involving directors and senior officers include purchasing meat gift boxes from Compart Family Farms, Inc. at advertised prices. Director, Kaye Compart, is affiliated with Compart Family Farms, Inc.

As discussed in Note 9, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $1.9 million, $1.9 million, and $1.8 million in 2015, 2014, and 2013, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2015, 2014, and 2013, our investment in Foundations was $83 thousand. The total cost of services purchased from Foundations was $422 thousand, $391 thousand, and $393 thousand in 2015, 2014, and 2013, respectively.

We have an agreement with CoBank to provide certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes an $8.0 million back-up cash management settlement facility.

NOTE 15: 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 that may be 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. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. At December 31, 2015, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $2.6 billion. Additionally, we had $44.8 million of issued standby letters of credit and $7.8 million of other commitments as of December 31, 2015. Refer to Note 18 for additional discussion regarding standby letters of credit included in the Consolidated Statements of Condition.

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. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

We are among the forming limited partners in a RBIC. Refer to Note 6 for additional discussion regarding this commitment.

NOTE 16: DERIVATIVES

We use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk on investments available-for-sale, loans held for sale, and interest rate lock commitments. Changes in fair value subsequent to inception are based on changes in the fair value of the underlying loan and for commitments to originate loans and changes in the probability that the loan will fund within the terms of the commitment. Changes in the probability that the loan will fund within the terms of the commitment are affected primarily by changes in interest rates and the passage of time. As of December 31, 2015, we had $42.7 million of forward commitments to sell, hedging $35.4 million of mortgage loans held for sale and $8.9 million of unfunded mortgage loan commitments. We began hedging available-for-sale investments during 2015, however there were no available-for-sale investments outstanding at December 31, 2015. As of December 31, 2014, we had $8.9 million of forward commitments to sell, hedging $7.9 million of mortgage loans held for sale and $3.4 million of unfunded mortgage loan commitments. As of December 31, 2013, we had $3.0 million of forward commitments to sell, hedging $4.5 million of mortgage loans held for sale and $588 thousand of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives and are valued at fair value. On the TBAs, we had gains of $315 thousand, $21 thousand, and $6 thousand and losses of $1.0 million, $579 thousand, and $8 thousand relating to net fair value adjustments and sales in 2015, 2014, and 2013, respectively. These amounts were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

NOTE 17: 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 input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

Recurring Basis

The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a recurring basis:

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $35.4 million, $7.9 million, and $4.5 million as of December 31, 2015, 2014, and 2013, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $155 thousand, $85 thousand, and $15 thousand in 2015, 2014, and 2013, respectively, were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Investment securities available-for-sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. Investment securities available-for-sale totaled $21.0 million at December 31, 2014, which were valued using Level 3 inputs. Gains related to these investments totaling $82 thousand in 2014, were recognized in “Other comprehensive income” in the Consolidated Statements of Comprehensive Income. During the year ended December 31, 2015 we sold available-for-sale investment securities with total sales proceeds of $53.7 million, resulting in a gain of $355 thousand, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. We had no outstanding available-for-sale securities at December 31, 2015. We had no investment securities available-for-sale during 2013.

Derivatives: If an active market exists, the fair value of our derivative financial instruments called TBAs is based on currently quoted market prices. We had TBAs with a notional value of $42.7 million, $8.9 million, and $3.0 million as of December 31, 2015, 2014, and 2013, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. Beginning in 2015, we also used these instruments to hedge the changes in fair value related to investment securities available-for-sale. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss of $709 thousand, $558 thousand, and $2 thousand in 2015, 2014, and 2013, respectively. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Non-Recurring Basis

We may also be required, from time to time, to measure certain assets at fair value on a non-recurring basis. The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a non-recurring basis:

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 required 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.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2015	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains
Impaired loans	**$ --**	**$ 1,493**	**$ 1,190**	**$ 2,683**	**$ 119**
Other property owned	**--**	**--**	**1,473**	**1,473**	**484**

As of December 31, 2014	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains
Impaired loans	$ --	$ 1,174	$ 4,792	$ 5,966	$ 1,272
Other property owned	--	--	4,322	4,322	567

As of December 31, 2013	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)
Impaired loans	$ --	$ 1,876	$ 19,840	$ 21,716	$ 539
Other property owned	--	--	5,270	5,270	(2,004)

NOTE 18: FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Not Measured at Fair Value on the Consolidated Statements of Condition

(in thousands)	**2015**		2014		2013	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans held to maturity	**$ 7,542,416**	**$ 7,567,903**	$ 6,870,310	$ 6,923,936	$ 6,318,088	$ 6,311,171
Investment securities held to maturity	**442,972**	**432,675**	460,939	451,926	462,424	451,774
Rural business investment company	**4,216**	**4,216**	757	757	--	--
Financial liabilities:						
Note payable to AgriBank, FCB	**$ 6,949,764**	**$ 6,959,752**	$ 6,340,682	$ 6,367,951	$ 5,862,433	$ 5,831,688
Subordinated debt	**99,491**	**108,900**	99,369	110,793	99,247	107,143
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**$ (3,273)**		$ (2,869)		$ (2,572)

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 7, 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 held to maturity: 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 held to maturity: 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.

Rural business investment company: Given the limited information available related to the expected return of our non-controlling interest in the RBIC and current earnings do not indicate impairment or projected losses, fair value was estimated at cost. The RBIC is included in "Other assets" in the Consolidated Statements of Conditions.

Note payable to AgriBank, FCB: 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.

Subordinated debt: We estimate the fair value of the subordinated debt by discounting the expected future cash requirements using current interest rates.

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 19: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 9, 2016, 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 2015 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgStar Financial Services, ACA

(Unaudited)

Description of Business

General information regarding the business is incorporated herein by reference from Note 1 to the accompanying Consolidated Financial Statements.

The description of significant business developments, if any, is incorporated herein by reference from the “Management's Discussion and Analysis" section of this Annual Report.

Description of Property

Property Information

Location	Description	Usage
Apple Valley, MN	Leased	Branch
Baldwin, WI	Owned	Branch
Bloomington, IL	Leased	Commercial Unit
Blue Earth, MN	Leased	Branch
Des Moines, IA	Leased	Contact Office
Duluth, MN	Leased	Contact Office
Fargo, ND	Leased	Commercial Unit
Glencoe, MN	Owned	Branch
Lake Elmo, MN	Leased	Commercial Unit
Mankato, MN	Owned / Leased	Branch/Headquarters
Meridian, ID	Leased	Contact Office
Northfield, MN	Leased	Branch
Rice Lake, WI	Owned	Branch
Rochester, MN	Leased	Branch
St. Cloud, MN	Owned	Branch
Sauk Centre, MN	Leased	Contact Office
Spokane, WA	Leased	Commercial Unit
Worthington, MN	Leased	Branch/Contact Office

Legal Proceedings

Information regarding legal proceedings is discussed in Note 15 to the accompanying Consolidated Financial Statements. We were not subject to any enforcement actions as of December 31, 2015.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 11 to the accompanying Consolidated Financial Statements.

Description of Liabilities

Information regarding liabilities is discussed in Notes 9, 10, 11, 12, 13, 15, 16, and 18 to the accompanying Consolidated Financial Statements.

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

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

- The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of the outside auditors, the processes for monitoring compliance with laws and regulations and the code of ethics. The Audit Committee also oversees the adequacy of management’s action with respect to recommendations arising from auditing activities.

- The **Credit Committee** oversees the integration of risk management activities throughout our organization. Committee members review ongoing risk assessments of current and emerging risks to ensure adequate planning and resources are directed at managing the identified risks. The Credit Committee also establishes and promotes an effective risk culture throughout our organization.
- The **Human Resources Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.

Board of Directors as of December 31, 2015, including business experience during the last five years

Name	Term	Principal Occupation and Other Affiliations
Kaye Compart Chairperson	October 2015 - 2018	**Principal Occupation:** Self-employed swine and seedstock producer **Other Affiliations:** Director: South Central Chapter of the University of Minnesota Alumni Association, Mankato, MN Director: Nicollet Area Community Foundation, Nicollet, MN, a fundraising organization Secretary: South Central Saddle Club, Fairmont, MN, involved in horse shows
Dale Holmgren Vice Chairperson	October 2013 - 2016	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** President: Svin Hus, Inc., a swine operation
Wesley Beck	October 2014 - 2017	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** Director: St. James Medical Center Foundation, St. James, MN, a volunteer fundraising committee
Eunice Biel	October 2014 - 2017	**Principal Occupation:** Self-employed dairy and grain famer Employed through 2014 at Mayo Clinic, Rochester, MN, as a Graphic Designer **Other Affiliations:** Executive Board: Minnesota Farmers Union, a general farm policy organization Board Member: Center for Rural Policy and Development, Mankato, MN, a nonprofit organization focused on rural issues Board Member: Minnesota Dairy Research/Education and Consumer Outreach Authority, St. Paul, MN, an agency of the Minnesota Department of Agriculture focused on partnerships between higher education and the dairy industry Board Member: Perpich Center for Arts Education, Golden Valley, MN, a Minnesota state agency intended to facilitate an integrated arts and academic curriculum for students Board Member: Associated Milk Producer's Inc., a dairy marketing cooperative owned by Midwest dairy farm families Bristol Township Clerk
David Bollman	October 2013 - 2016	**Principal Occupation:** Self-employed dairy, grain, and vegetable farmer
Theresa Ann Broome Outside Director	October 2015 - 2019	**Principal Occupation:** Self-employed Human Resources Consultant Chief People Officer: Lower Colorado River Authority, Austin, TX, a power plant and park management company (August 2010 - March 2012) Senior Vice President: Human Resources for American Achievement Corporation, Austin, TX, a consumer goods holding company (April 2006 - August 2010) **Other Affiliations:** President: Sienna Group, HR Consulting Director: Farm Credit Foundations, a pension and benefits service provider
Terry Ebeling	October 2013 - 2016	**Principal Occupation:** Self-employed grain farmer
Spencer Enninga	October 2014 - 2017	**Principal Occupation:** Self-employed grain and livestock farmer and seed sales representative **Other Affiliations:** President: Enninga Farms, Inc., Fulda, MN, a grain and livestock operation
Joyce Fernando Outside Director	April 2015 - October 2017	**Principal Occupation:** Plant Controller for ConAgra Foods, Park Rapids, MN International Accounting Manager for The Walt Disney Company (2007 - 2013)

Name	Term	Principal Occupation and Other Affiliations
Larry Fischer	October 2015 - 2017	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** President/Treasurer: Fischer Dairy, Inc., Sleepy Eye, MN, a dairy operation Member: Fischer Ridge, LLC, Sleepy Eye, MN, an entity created to own and manage recreational land
Steven Johnson	October 2013 - 2016	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Director: Windom Hospital Foundation, a fundraising organization
Kevin Koppendrayer	October 2015 - 2019	**Principal Occupation:** Self-employed grain farmer and a seed sales representative Owner: Koppendrayer Trucking, Princeton, MN
David Kretzschmar	October 2014 - 2017	**Principal Occupation:** Self-employed dairy and grain farmer **Other Affiliations:** President: Kretzschmar Holsteins, Inc., Mellen, WI, a dairy operation
William McCue	October 2013 - 2016	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Partner: McCue Family Farms Partnership, Belle Plaine, MN, a grain operation Partner: McCue Family Limited Partnership, Belle Plaine, MN, land rental Partner: Endurance Farms, GP, Green Isle, MN, a grain operation
Gregory Nelson	October 2014 - 2017	**Principal Occupation:** Self-employed grain and livestock farmer **Other Affiliations:** Director: Wisconsin Beef Council, Madison, WI, a trade group President: Elmwood Public School Board, Elmwood, WI
Rick Sommers	October 2015 - 2018	**Principal Occupation:** Self-employed dairy farmer. He ran a dairy operation until late 2014. Williams & Associates, appraisal trainee

In 2015, the Board of Directors approved to reduce the number of regions from five to three and will be reducing the number of stockholder-elected Directors from 15 to 12 following the 2016 Director election. The term for Directors has been increased from three years to four years. In order to accomplish a goal of one stockholder-elected Director on the ballot each year from each of AgStar's three regions, Director terms will vary over the next several years ranging from two to four years.

Pursuant to our bylaws, Directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. In 2015, the Board of Directors' per diem rate was $400 per day plus travel time compensation for each meeting attended. The Board of Directors regular monthly meetings are normally two days in length. In addition, they hold two, three-day planning sessions annually. In 2015, each Director received a $1,000 per month retainer fee, with the exception of the chairperson who received a $1,500 per month retainer fee. The Board committee chairperson for the Audit Committee, Human Resources Committee, and Credit Committee each received an additional retainer of $100 per month. Each Director is eligible for a variable retainer fee based on companywide financial and business objectives. The award is calculated as a percentage of the Director's annual per diem compensation. The performance criteria include return on equity, operating revenue growth, adverse assets to risk funds ratio, net operating rate, client satisfaction, and client loyalty. Under the terms of the plan, no payments are made in the event our return on equity or adverse assets to risk funds ratio fall outside specified threshold levels. The percentage used in the award calculation depends on the actual results for each performance criteria.

Information regarding compensation paid to each director who served during 2015 follows:

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2015[1]
Wesley Beck	23.0	15.0	$ 880	Audit	$ 35,547
Eunice Biel	23.0	14.0	1,346	Human Resources	33,303
David Bollman	22.0	20.0	1,354	Human Resources	38,252
Theresa Ann Broome	23.0	13.0	2,400	Human Resources	39,850
Kaye Compart	22.0	27.0	1,279	Human Resources	47,668
			409	Credit	
Terry Ebeling	23.0	13.0	846	Audit	33,603
Spencer Enninga	23.0	18.0	2,249	Credit	37,630
Joyce Fernando[2]	17.0	5.0	800	Audit	19,891
Larry Fischer	23.0	15.0	884	Audit	34,313
Dale Holmgren	23.0	27.0	2,124	Credit	40,495
Steven Johnson	22.0	14.0	1,378	Human Resources	34,203
William Kiehne[3]	--	--	--		1,898
Kevin Koppendrayer	23.0	18.0	430	Audit	36,619
David Kretzschmar	23.0	16.0	2,466	Credit	37,133
William McCue	23.0	10.0	1,662	Credit	30,952
Gregory Nelson	21.0	20.0	1,688	Credit	34,956
Lawrence Romuald[3]	22.0	11.0	1,008	Audit	33,035
Lowell Schafer[3]	16.0	7.0	1,266	Credit	23,940
Rick Sommers	23.0	14.0	841	Human Resources	33,734
					$ 627,022

[1] Compensation in 2015 includes taxable fringe benefits, if applicable.
[2] First elected to Board in 2015.
[3] No longer on Board at December 31, 2015.

Senior Officers

The senior officers, and the date each began in his current position, include:

Rodney W. Hebrink	President and Chief Executive Officer	July, 2014
Joseph R. Deufel	Executive Vice President, Chief Credit Officer and Assistant Secretary	July, 1991
Jase L. Wagner	Senior Vice President and Chief Financial Officer	October, 2014
Wick Manley	Executive Vice President and Chief Relationship Management Officer	September, 2001
Paul B. Kohls	Senior Vice President, General Counsel and Secretary	January, 2012

Mr. Deufel and Mr. Manley have held their current positions for the past five years.

From October, 2011 until July, 2014, Mr. Hebrink held the position of Executive Vice President and Chief Financial Officer. Mr. Hebrink was Senior Vice President and Chief Financial Officer prior to October, 2011.

From 2009 to 2013, Mr. Wagner was with us as Vice President of Capital Management. In 2014, Mr. Wagner took the position of Managing Director, Agri-Access until beginning his current position.

Prior to 2012, Mr. Kohls was an Assistant General Counsel with us, originally hired in 2010.

Mr. Hebrink is on the board of Farm Credit Foundations, a pension and benefits service provider and MN AgriGrowth Council. He is also the President of Rural Funding, LLC.

Mr. Kohls is on the board of Better Futures Minnesota, a non-profit.

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.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 14 to the accompanying Consolidated Financial Statements.

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:

P.O. Box 4249
Mankato, MN 56002-4249
(866) 577-1831
www.agstar.com
AgStarEteam@agstar.com

The total directors' travel, subsistence, and other related expenses were $196 thousand, $350 thousand, and $254 thousand in 2015, 2014, and 2013, 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, 2016 or at any time during 2015.

Client Privacy

The FCA Regulations protect clients' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our clients 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 stockholders and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2015 for audit services were $121 thousand and $2 thousand was paid for accounting research software.

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.

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, sex, creed, religion, national origin, age, disability, marital status, familial status, sexual orientation, public assistance status, veteran status, genetic information, pregnancy or any other status protected by law. We comply with all federal, state, and local equal opportunity employment regulations. All personnel decisions and processes relating to our employees and job applicants are conducted in an environment free of discrimination and harassment. We are committed to recruiting, hiring, providing standard benefits, training, and promoting without regard to the above listed factors.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

AgStar Financial Services, ACA

(Unaudited)

We have specific programs in place to serve the credit related needs of young, beginning and small farmers and ranchers (YBS) in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Mission Statement

Mission Statement: We will provide ongoing access to credit, related services and outreach programs to qualified YBS farmers.

Policy to complete Mission Statement: We will actively develop and execute an annual business plan to qualified YBS farmers. This plan will target and serve YBS farmers through a variety of credit and outreach programs in an effort to help the next generation of farmers succeed. We are further committed to supporting educational and developmental opportunities to this segment of farmers.

2015 Business Environment

The number of young farmers within our territory has increased during the last several years. The 2007 United States Department of Agriculture (USDA) census data showed the young farmer population within our territory at 6%. Data from the 2012 USDA census revealed the young farmer population is now 12%. In comparison, 18% of our total loans are to young farmers. (The USDA census information and FCA definition of young farmers varies slightly. USDA information is reported for farmers 34 years of age and younger, versus the FCA’s definition of 35 years of age and younger.)

The number of beginning farmers has increased slightly over the past years. According to the USDA census, beginning farmers within our territory increased from 20% in 2007 to 21% in 2012. Using the FCA definition, 22% of our total loans are made to beginning farmers. (The USDA census information and FCA definition of beginning farmers varies slightly. While FCA defines a beginning farmer as an individual with 10 years or less experience, the USDA reports those who have been farming the same farm for 9 years or less.)

In the small farmer area there has been a widening disparity in gross farm income between the large and small farmers. Of farmers surveyed in the 2007 census, 87% had less than $250 thousand in total value of sales. In the 2012 USDA census, this decreased to 81%. Forty-two percent of our total loans are to small farmers. (The FCA definition of a small farm [less than $250 thousand in annual gross sales] varies some from the USDA census information, which is reported as total value of sales.)

In 2015, we targeted $4.2 billion of aggregate YBS lending. Total aggregate YBS lending at year end 2015 was $4.4 billion, putting us above our targeted level. Our YBS goals and results for 2015 were:

Total number of loans to Young, Beginning and Small Farmers

	Goal	Actual	% of Goal
Young	10,900	10,733	98%
Beginning	13,400	13,152	98%
Small	25,300	25,341	100%

New loans made in 2015 to Young, Beginning and Small Farmers

	Number of loans		TLO* (in millions)	
	Goal	Actual	Goal	Actual
Young	4,000	4,429	$310	$465
Beginning	4,400	5,021	$385	$532
Small	9,750	10,683	$375	$451

* TLO - Total Legal Obligation

The number of new loans to YBS farmers exceeded all targeted levels. Of the loans that utilized government agency guarantees in 2015, 62% were to YBS farmers.

2015 Highlights

Each of our Financial Service Officers was charged with establishing relationships and writing new loans with six new, young, or beginning farmer prospects in 2015. The average number of new, young, or beginning clients per Financial Service Officer achieved was 7.2, surpassing the targeted level. Ongoing informal mentoring and financial counseling is provided as a normal course of business to young and beginning farmers. Closely linked to the mentoring program is the offering of related services. Financial Service Officers, through their normal course of business, also discuss the advantages and availability of other products and services, including crop insurance, cash management, and online banking services which are also available to YBS farmers.

As part of our YBS educational and outreach initiatives, we offered the "GroundBreakers Educational Conference" in February 2015. The two-day conference featured sessions on outlooks for the grain, dairy, swine, beef, and ethanol industries; a panel discussing legislative affairs, and a presentation on the management characteristics of successful Agricultural CEOs. The conference was attended by over 300 clients and prospects. Additionally, the AgStar Scholars program (supported by the AgStar Fund for Rural America) continues to offer financial assistance and internship opportunities to students studying agriculture at the University of Minnesota, South Dakota State University, Southwest Minnesota State University, and the University of Wisconsin – River Falls. Ten college students were awarded scholarships in 2015. The Fund also awarded 41 scholarships totaling $40,000 to graduating high school seniors who are moving on to study agriculture at the university or technical college level. We continue to provide young and beginning farmers with tuition assistance for state Farm Business Management programs. The program provided partial tuition assistance to 12 clients and non-clients throughout our territory in 2015. We continue to be a financial sponsor of many innovative programs and conferences, the MN FFA Star awards, and the "Ag in the Classroom" program, just to name a few.

Programs for YBS farmers include standards and guidelines to provide for extension of sound and constructive credit, consistent with our business objectives. We review the YBS lending programs and underwriting standards on an ongoing basis. To minimize credit and profit risk exposure, maximum portfolio concentration and program graduation criteria were included in the program. Additionally, a risk pool of $50 million is available annually for YBS farmer loans and leases. In 2015, almost $25 million of the risk pool was utilized. The usage of the risk pool has increased significantly over the past few years as a result of continued YBS program enhancements.

FUNDS HELD PROGRAM

AgStar Financial Services, ACA

(Unaudited)

Purpose

This policy provides direction to management for administering uninsured voluntary and involuntary accounts in compliance with FCA Regulation 614.4175.

Objective

FCA Regulation 614.4175 provides that the association may provide funds to borrowers from voluntary advance conditional payment accounts in lieu of increasing the borrower's loan. The association also may establish involuntary payment accounts for purposes identified in the regulation and this policy. The direction in this policy provides for regulatory compliance in the administration of such voluntary and involuntary accounts and their management to avoid liquidity risk.

Voluntary Advance Conditional Payment Accounts

Voluntary advance conditional payments are available for the benefit and convenience of clients who desire to make conditional payments. The voluntary account balance may not exceed the outstanding balance on the related loan(s). Loans having a prepayment penalty or variable interest rate cap should not have a funds held balance greater than 10% of the principal balance.

The association will generally pay interest for the time voluntary funds are held unapplied at the lessor of, the Effective Federal Funds Rate calculated by the Federal Reserve Bank of New York to the nearest eighth of one percent following a change in the Target Range by the members of the Federal Reserve's Federal Open Market Committee or a loan's current bill rate minus 50 basis points, with the provision that beginning on the first day of 2016 and ending the day the Effective Federal Funds Rate reaches 75 basis points or greater, the association will pay at least 75 basis points in interest.

Rate changes will be effective within 60 days of a change by the Federal Reserve's Federal Open Market Committee. Our Asset Liability Committee (ALCO) shall have the authority to adjust the rate paid on funds held. Any change by ALCO in the method of determining the funds held rate shall be reported to the Board within 60 days.

Withdrawal of Funds

Funds in a funds held account may be available to be returned to clients, upon request, for an eligible loan purpose in lieu of increasing the client's loan. Withdrawals from funds held in general should be limited and in general should not be less than $100. Upon the death of a client who has funds held balances, the association does not set up death beneficiaries or "payable on death" designations to distribute funds held balances.

Involuntary Payment Accounts

The association may establish involuntary payment accounts including, but not limited to, funds held for borrowers, such as loan proceeds to be disbursed for which the borrower is obligated; the unapplied insurance proceeds arising from any insured loss; any insurance premiums and applicable taxes collected in advance in connection with any loan.

Amounts in involuntary payments accounts must be reasonable for the purpose for which the account is intended, for example, equal to annual payments of insurance and taxes plus a reasonable contingency, funds for construction projects, or insurance proceeds to rebuild.

The association may pay a different rate of interest on funds held that are required to be maintained either as a condition of the loan or which have other restricted purposes such as insurance and tax escrows or insurance proceeds. If the interest rate on the involuntary payment account is above the association's standard funds held rate, the funds held balance should be limited to 20% of the principal balance.

ALCO shall have authority to adjust the rate paid on funds held if the Federal Funds Rate target no longer provides a reasonable correlation to the Association's variable cost of funds. Any change by ALCO in the method of determining the funds held rate shall be reported to the Board within 60 days.

Withdrawal of Funds on Involuntary Payment Accounts

Involuntary payment accounts may be used only for their specifically designated purpose. Withdrawal of escrow funds may be permitted if the funds are needed to protect the loan collateral or it is not adverse to the association's best interest to release the funds.

Agreement/Disclosures

The association shall require written agreements with borrowers and adequate disclosures regarding:

- The uninsured status of voluntary advance conditional payment funds or involuntary payment account funds and an explanation of the risk in the event of the association's liquidation;
- Limits on amounts that can be paid into voluntary advance conditional payment accounts or involuntary payment accounts;
- Interest rates that will be paid, including the terms of variable interest rates; and
- Withdrawal guidelines.

Liquidation

In the event of association liquidation, all borrowers having funds in voluntary or involuntary uninsured accounts shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when the receivership was instituted, and the funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of such notice, the borrower directs the receiver to otherwise apply such funds in the manner provided for in existing loan documents.

The CEO, or other officer designated by the CEO, shall be responsible for developing and maintaining procedures to ensure administration of this policy.

The Board of Directors shall review the ongoing adequacy of this policy at least annually.

Delegated and Retained Authorities

All authorities included in the operating parameters are delegated as specified and to the extent not delegated are retained by the Board of Directors.

Exceptions

Any exceptions to this policy shall require approval of the Board of Directors and, at the option of the Board, may receive post approval.

Reporting

Material issues regarding this policy shall be reported to the Board of Directors by the CEO, or other association officer designated by the CEO, at such times and in such format as the CEO determines appropriate.

Revision Approval Date: 2/26/03; 2/22/07; 12/17/09; 11/18/10; 2/19/14; 12/16/15

Initial Board Approval Date: 12/16/98

Related Documents

FCA Regulations 614.4175 and 627.2735; FCA BL-030

AgStar
Financial Services, ACA

1921 Premier Drive
Mankato, MN 56001