Badgerland Financial, ACA

Quarterly Report
March 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Badgerland Financial, ACA (the parent) and Badgerland Financial, FLCA and Badgerland Financial, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our 2012 Annual Report for the year ended December 31, 2012.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Badgerland Financial, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report contact us at 1430 North Ridge Drive, Prairie du Sac, WI 53578, (877) 780-6410, or e-mail Greg.Rufsvold@badgerlandfinancial.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at agribankmn@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are available through AgriBank's website at www.agribank.com.

Loan Portfolio

Loans totaled $2.9 billion at March 31, 2013, a $70.5 million increase from December 31, 2012.

Accrual mortgage loan volume has increased $102.2 million since December 31, 2012. This increase was primarily due to marketing results on our retail portfolio along with a substantial amount of activity in our capital markets segment. We had significant growth resulting from a new business promotion for mortgage loans. In addition, we experienced a significant number of capital markets loan closings with disbursements occurring during the first three months of 2013.

Accrual commercial loan volume has decreased $29.9 million since December 31, 2012. In spite of the 2012 drought, overall farm earnings were strong. Higher commodity prices along with crop insurance proceeds have resulted in a significant pay-down of commercial loans in the first quarter of 2013. While new loan activity has kept pace with the pay-downs, a number of commercial loans that were closed in the fourth quarter of 2012 were refinanced with mortgage loans in the first quarter of 2013 which also contributed to the overall decline in the commercial portfolio quarter over quarter.

Agricultural and Economic Conditions

In contrast to this time last year, temperatures have remained very cool and there has been very little spring field work completed as of early May 2013. Once soil conditions improve, planting will get underway in earnest. Recent rain and snow has provided optimism that moisture conditions will improve following the 2012 drought. Although frost has prevented much of this moisture from replenishing sub-soils, producers are hopeful that spring rains will provide for a good planting and growing season. Although there is some optimism that severe drought conditions will not extend into the 2013 growing season, the 2013 crop insurance sales season showed a significant increase in acres insured as well as many producers increasing their coverage levels if they already carried insurance. Current cash prices for corn are approximately $6.72/bu and soybeans around $14.07/bu. New crop corn cash prices are estimated at $5.16/bu. and new crop soybeans at $11.51/bu. Futures prices for new crop corn are approximately $5.54/bu and soybeans are at approximately $12.21/bu. Nationally, corn acreage is expected to be up slightly from 2012 at 97.3 million acres planted, which would be the most since 1936. At an estimated 77.1 million acres, soybean acreage is expected to be down slightly from 2012, but still the fourth most planted acres in history. Some shifting of acreage could occur depending on weather conditions as a late spring could move more acres to soybeans. Barring another widespread drought in the United States, a more normal harvest along with strong yields in South America could put downward pressure on grain prices as harvest approaches. Losses from the 2012 drought were offset to some degree by crop insurance as well as higher commodity prices for those producers that had grain to sell that was not contracted at below market prices.

The average class III milk price for the first quarter 2013 was $17.44/cwt which compares to $16.28/cwt for the same quarter last year. Calendar year 2012 averaged $17.44/cwt. The milk futures for the balance of 2013 (Apr-Dec) currently average $18.79/cwt which is up significantly from this same time last year (all milk prices are before premiums).

Recreational land values are showing some improvement in values after several years of softening. Historically strong commodity prices as well as low interest rates have resulted in significant increases in cropland values the past several years. Demand remains strong and cropland values continue to climb. Grain prices and interest rates will likely continue to be two of the main drivers for cropland values. Overall economic conditions throughout our territory continue to show some modest improvement which should provide for some non-farm employment opportunities.

Portfolio Credit Quality

The credit quality of our portfolio has remained stable from December 31, 2012. Adversely classified loans have not changed from 2.4% of the portfolio at December 31, 2012. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At March 31, 2013, $92.3 million of our loans were, to some level, guaranteed under these governmental programs.

Risk Assets

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

As of:	**March 31 2013**	December 31 2012
Loans:		
Nonaccrual	**$11,264**	$13,066
Accruing restructured	**227**	233
Accruing loans 90 days or more past due	**3,255**	7,299
Total risk loans	**14,746**	20,598
Other property owned	**7,158**	3,664
Total risk assets	**$21,904**	$24,262
Risk loans as a percentage of total loans	**0.5%**	0.7%
Total delinquencies as a percentage of total loans	**0.7%**	0.8%

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

The decrease in nonaccrual loans was primarily due to the acquisition of collateral and transfer to other property owned related to a loan in the ethanol industry. Nonaccrual loans remained at an acceptable level at March 31, 2013 and represented 0.4% of our total portfolio. At March 31, 2013, 56.5% of our nonaccrual loans were current.

The decrease in accruing loans 90 days or more past due was primarily due to principal payments during the three months ended March 31, 2013 sufficient to bring the loans to current status. Our accounting policy generally requires loans past due 90 days to be transferred into nonaccrual status. Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

During January 2013, we acquired the collateral of a nonaccrual loan in the ethanol industry. The appraised fair value of the property was greater than the recorded investment in the loan and, therefore, we recognized a write-up of the property of $840 thousand during the three months ended March 31, 2013. No write-up of this nature was recorded during the three months ended March 31, 2012. This transaction resulted in an increase of $3.5 million to other property owned during the three months ended March 31, 2013.

Allowance for Loan Losses

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

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

Allowance as a percentage of:	**March 31 2013**	December 31 2012
Loans	**0.1%**	0.2%
Nonaccrual loans	**35.8%**	34.7%
Total risk loans	**27.4%**	22.0%

The allowance for loan losses decreased as of March 31, 2013 compared to December 31, 2012. However, the allowance for loan losses as a percentage of nonaccrual loans and risk loans has increased due to the significant decline in nonaccrual loans and risk loans during the three months ended March 31, 2013 as well as stable credit quality compared to December 31, 2012. Refer to the Risk Assets section above for additional information regarding the changes in nonaccrual loans. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2013.

Results of Operations

Net income for the three months ended March 31, 2013 totaled $19.1 million compared to $19.6 million for the same period in 2012. The following table illustrates profitability information:

As of March 31	2013	2012
Return on average assets	**2.5%**	2.8%
Return on average members' equity	**12.2%**	14.1%

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

For the three months ended March 31	2013	2012	Increase (decrease) in net income
Net interest income	**$21,835**	$21,399	**$436**
(Reversal of) provision for loan losses	**(436)**	(1,584)	**(1,148)**
Patronage income	**5,090**	4,249	**841**
Other income	**4,088**	3,435	**653**
Operating expenses	**12,098**	10,217	**(1,881)**
Provision for income taxes	**228**	837	**609**
Net income	**$19,123**	$19,613	**($490)**

Net interest income was $21.8 million for the three months ended March 31, 2013. The following table quantifies changes in net interest income for the three months ended March 31, 2013 compared to the same period in 2012 (in thousands):

	2013 vs 2012
Changes in volume	**$2,029**
Changes in rates	**(1,329)**
Changes in nonaccrual income and other	**(264)**
Net change	**$436**

The change in the provision for loan losses reflects the continued improvement in the credit quality of the loan portfolio over the past year as well as pay-downs on certain nonaccrual loans and a large acquisition of collateral positively affecting nonaccrual balances. However, the impact on income has decreased as allowance levels have stabilized.

The change in patronage income was primarily related to increased patronage received from AgriBank due to a larger participation in the asset pool program compared to the participation as of March 31, 2012 as well as a higher patronage rate compared to the prior year. Additionally, we received patronage from another System Bank as result of our investment in the Bank.

The change in other income was primarily related to the write-up of other property owned during the three months ended March 31, 2013, partially offset by a decline in related services income.

The change in operating expenses was primarily related to increases in salaries and benefits resulting primarily from staffing additions as well as normal annual merit increases. Additionally, we have experienced increases in Farm Credit System insurance expenses.

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

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

Funding, Liquidity, and Capital

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

Cost of funds associated with our note payable include a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, and bank profit, and a risk premium component, if applicable. We were not subject to the risk premium component at March 31, 2013 or December 31, 2012.

Total members' equity increased $16.8 million from December 31, 2012 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2012 Annual Report for a more complete description of these ratios. As of March 31, 2013, the ratios were as follows:

- The permanent capital ratio was 15.8%.
- The total surplus ratio was 15.6%.
- The core surplus ratio was 15.6%.

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

Certification

The undersigned certify they have reviewed Badgerland Financial, ACA's March 31, 2013 Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Michael Winker
Chairperson of the Board
Badgerland Financial, ACA

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

May 3, 2013

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	March 31 2013	December 31 2012
ASSETS		
Loans	**$2,926,434**	$2,855,906
Allowance for loan losses	**4,037**	4,540
Net loans	**2,922,397**	2,851,366
Investment in AgriBank, FCB	**95,009**	94,045
Accrued interest receivable	**14,541**	13,925
Premises and equipment, net	**12,706**	12,609
Other property owned	**7,158**	3,664
Equity investment	**3,235**	3,235
Other assets	**22,141**	26,313
Total assets	**$3,077,187**	$3,005,157
LIABILITIES		
Note payable to AgriBank, FCB	**$2,405,837**	$2,357,428
Accrued interest payable	**7,159**	7,127
Deferred tax liabilities, net	**2,064**	2,421
Patronage distribution payable	**2,388**	9,000
Other liabilities	**26,766**	13,033
Total liabilities	**2,444,214**	2,389,009
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Capital stock and participation certificates	**7,943**	7,852
Unallocated surplus	**625,030**	608,296
Total members' equity	**632,973**	616,148
Total liabilities and members' equity	**$3,077,187**	$3,005,157

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA
(in thousands)
(Unaudited)

For the three months ended March 31	**2013**	2012
Interest income	**$28,994**	$29,311
Interest expense	**7,159**	7,912
Net interest income	**21,835**	21,399
(Reversal of) provision for loan losses	**(436)**	(1,584)
Net interest income after (reversal of) provision for loan losses	**22,271**	22,983
Other income		
Patronage income	**5,090**	4,249
Financially related services income	**2,394**	2,605
Fee income	**593**	671
Miscellaneous income, net	**1,101**	159
Total other income	**9,178**	7,684
Operating expenses		
Salaries and employee benefits	**7,516**	6,388
Other operating expenses	**4,582**	3,829
Total operating expenses	**12,098**	10,217
Income before income taxes	**19,351**	20,450
Provision for income taxes	**228**	837
Net income	**$19,123**	$19,613

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2011	$7,548	$540,884	$548,432
Net income	--	19,613	19,613
Unallocated surplus designated for patronage distributions	--	(1,868)	(1,868)
Capital stock/participation certificates issued	223	--	223
Capital stock/participation certificates retired	(161)	--	(161)
Balance at March 31, 2012	$7,610	$558,629	$566,239
Balance at December 31, 2012	**$7,852**	**$608,296**	**$616,148**
Net income	**--**	**19,123**	**19,123**
Unallocated surplus designated for patronage distributions	**--**	**(2,389)**	**(2,389)**
Capital stock/participation certificates issued	**244**	**--**	**244**
Capital stock/participation certificates retired	**(153)**	**--**	**(153)**
Balance at March 31, 2013	**$7,943**	**$625,030**	**$632,973**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2012 Annual Report for the year ended December 31, 2012.

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued but are not yet effective and have determined that no such standards are expected to have a material impact to our consolidated financial statements.

NOTE 2: Loans and Allowance for Loan Losses

Loans consisted of the following (dollars in thousands):

As of:	**March 31, 2013**		December 31, 2012	
	Amount	%	Amount	%
Real estate mortgage	**$1,692,311**	**57.8%**	$1,602,004	56.1%
Production and intermediate term	**800,528**	**27.4%**	837,245	29.3%
Agribusiness	**272,468**	**9.3%**	253,984	8.9%
Other	**161,127**	**5.5%**	162,673	5.7%
Total	**$2,926,434**	**100.0%**	$2,855,906	100.0%

The other category is comprised of communication, energy, rural residential real estate as well as loans originated under our Mission Related Investment authority.

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

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days or More Past Due and Accruing
As of March 31, 2013						
Real estate mortgage	**$7,767**	**$3,405**	**$11,172**	**$1,689,982**	**$1,701,154**	**$608**
Production and intermediate term	**2,927**	**3,310**	**6,237**	**799,279**	**805,516**	**2,642**
Agribusiness	**--**	**--**	**--**	**272,864**	**272,864**	**--**
Other	**2,352**	**1,419**	**3,771**	**157,670**	**161,441**	**5**
Total	**$13,046**	**$8,134**	**$21,180**	**$2,919,795**	**$2,940,975**	**$3,255**
As of December 31, 2012						
Real estate mortgage	$8,143	$2,799	$10,942	$1,598,729	$1,609,671	$1,549
Production and intermediate term	2,079	6,051	8,130	834,590	842,720	5,276
Agribusiness	3,107	2,493	5,600	248,706	254,306	--
Other	273	1,886	2,159	160,975	163,134	474
Total	$13,602	$13,229	$26,831	$2,843,000	$2,869,831	$7,299

Risk Loans

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

As of:	March 31 2013	December 31 2012
Volume with specific reserves	**$2,773**	$2,716
Volume without specific reserves	**11,973**	17,882
Total risk loans	**$14,746**	$20,598
Total specific reserves	**$1,571**	$1,876

For the three months ended March 31	2013	2012
Income on accrual risk loans	**$79**	$7
Income on nonaccrual loans	**93**	357
Total income on risk loans	**$172**	$364
Average risk loans	**$17,488**	$18,956

The decrease in risk loans was primarily related to a decline in accruing loans 90 days or more past due as a result of principal payments during the three months ended March 31, 2013 sufficient to bring the loans to current status. Additionally, nonaccrual loans declined primarily due to the acquisition of collateral and transfer to other property owned related to a loan in the ethanol industry.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as formally restructured. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

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

	2013		2012	
	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Real estate mortgage	**$ --**	**$ --**	$205	$205
Production and intermediate term	**3**	**1**	106	106
Total	**$3**	**$1**	$311	$311

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

There were no troubled debt restructurings that defaulted during the three months ended March 31, 2013 in which the modification was within twelve months of the beginning of the respective reporting period. Our production and intermediate term loans had $112 thousand of troubled debt restructurings that defaulted during the three months ended March 31, 2012 in which the modifications were within twelve months of the beginning of the respective reporting period.

Troubled debt restructurings outstanding at March 31, 2013 totaled $831 thousand, of which $604 thousand were in nonaccrual status compared to $861 thousand at December 31, 2012 of which $628 thousand were in nonaccrual status. There were no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at March 31, 2013.

Allowance for Loan Losses

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

Three months ended March 31	**2013**	2012
Balance at beginning of year	**$4,540**	$6,621
(Reversal of) provision for loan losses	**(436)**	(1,584)
Loan recoveries	**4**	113
Loan charge-offs	**(71)**	(91)
Balance at end of period	**$4,037**	$5,059

The change in the provision for loan losses reflects the continued improvement in the credit quality of the loan portfolio over the past year as well as pay-downs on certain nonaccrual loans and a large acquisition of collateral positively affecting nonaccrual balances.

NOTE 3: Equity Investment

We held a non-controlling equity investment in a venture capital equity fund of $3.2 million at March 31, 2013 and December 31, 2012. This investment represents our stake in a venture capital equity fund focused on the needs of rural start-up companies. Our commitment to this venture capital equity investment began in 2008 and is over a period of ten years. We are a limited partner in the fund and the equity investment is valued at cost. Our remaining commitment to the fund at March 31, 2013 was $1.8 million.

The investment was evaluated for impairment. To date, there have been no adverse events or operational losses regarding the fund and, therefore, no impairments have been recognized on this equity investment. We have not received any distributions from the fund as of March 31, 2013.

NOTE 4: Contingencies and Commitments

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

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

NOTE 5: Fair Value Measurements

The FASB guidance on “Fair Value Measurement” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2012 Annual Report for a more complete description of the three input levels.

We do not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2013 or December 31, 2012. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
As of March 31, 2013					
Loans	**$ --**	**$1,262**	**$ --**	**$1,262**	**$234**
Other property owned	**--**	**--**	**7,444**	**7,444**	**792**
As of December 31, 2012					
Loans	$ --	$881	$ --	$881	$1,515
Other property owned	--	--	3,811	3,811	(951)

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

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

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

NOTE 6: Subsequent Events

We have evaluated subsequent events through May 3, 2013, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.