AgStar Financial Services, ACA

Quarterly Report
September 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgStar Financial Services, ACA (the parent) and AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2013 (2013 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in AgStar Financial Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report, contact us at P.O. Box 4249, Mankato, MN 56002-4249, by phone (866-577-1831), by e-mail to AgStarEteam@agstar.com, or at our website, www.agstar.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2013 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

We serve many sectors in agriculture including our primary industries of grain, swine, and dairy. Credit quality, delinquencies, and nonaccrual measures are showing significant improvement during 2014. As we receive updated client financial information in 2015, we are expecting some stress in the grain portfolio to occur resulting from lower commodity prices. The current quality of the crop portfolio continues to be strong at 0.6% adverse, with the portfolio well positioned for the expected adversity in 2015 and 2016.

According to the United States Department of Agriculture's (USDA), net farm income is forecast at $113.2 billion for 2014. This is approximately 14% below the 2013 forecast and is driven by lower grain prices. Over the last few years, overall conditions have been favorable for agricultural producers, resulting in generally positive performance for agricultural producers and agribusinesses.

As of October 9, USDA's corn production is forecast at 14.5 billion bushels, up 80 million bushels from the September report. Estimated average yields were 174.2 bushels per acre, up from 158.8 bushels per acre in 2013/2014. Area harvested for grain is projected at 83.1 million acres, down from 87.7 million acres in 2013/2014. Ending corn stocks for 2014/2015 are projected at 2,081 million bushels, up from 1,236 million bushels at 2013/2014. The USDA projects 2014/2015 season-average farm price for corn at $3.10 to $3.70 per bushel. Corn exports are anticipated to remain strong, although down slightly from the previous year. The demand/usage will drive the market until planting intentions reports in early 2015.

The USDA is currently forecasting soybean production at 3.9 billion bushels, up 14 million bushels from September. The current yield is estimated at 47.1 bushels per acre, up from 44 bushels per acre in 2013/2014. Area for harvest is projected to be at 83.4 million acres. USDA season-average farm price forecast for soybeans is $9 to $11 per bushel, with exports expected to remain strong. Projected ending stocks are estimated to be 450 million bushels.

This year has been a challenging year for swine producers as disease created volatile markets and a difficult hedging environment. The spread of the Porcine Epidemic Diarrhea Virus (PEDv) led to market supply uncertainty, in particular over the summer and early fall. The disease increased feeder pig prices as the market tried to replenish supply of swine after the death loss. Producers continued to put additional weight on hogs, which allowed overall production to be relatively flat over 2013. This also led to significant loan volume increase as hedge line usage expanded; however, this has come down over the past several months. The PEDv impacted a significant number of Minnesota and national swine producers. Producers are currently able to lock in substantial profits throughout 2014 and into 2015. Exports remain steady, despite difficulties with China and Russia. The current quality of the swine portfolio remains strong at 97.4% non-adverse and is expected to continue to be favorable.

Milk price outlook remains favorable through 2014, although 2015 margins are expected to be tighter. Very tight cheese supplies continue to place a floor on prices. Dairy producers that grow their own feed, as well as those who purchase their feed, should be profitable in 2014. Margins improved significantly in 2014 due to the higher prices and significantly lower feed costs. The dairy portfolio has shown significant improvement since year end and is expected to continue to progress.

The ethanol industry continues to deal with more favorable market conditions than previously experienced. Lower corn costs are having a positive effect on industry profitability and margins are expected to remain positive through the end of 2014 and into 2015. Additionally, agricultural related businesses have generally been profitable and fared better during the past several years as compared to companies not closely tied to agriculture.

Farm real estate values in our territory continued to show strong increases during 2013 with solid demand for farm real estate. Lower crop prices have led to flat to slightly declining prices in 2014. Values for transitional and recreational property remain low compared to the peak values previously reached. We have maintained a disciplined approach to our real estate underwriting standards.

Over the past few years, our home mortgage portfolio has continued to perform better than the overall housing industry. Payment and credit quality continues to improve and delinquencies and foreclosure numbers have shown gradual improvement after stabilizing in 2010. The mortgage industry has seen about a 30% drop in loan production in 2014. One factor contributing to this slowdown is financial institutions adjusting to new regulatory compliance and ability-to-repay regulations.

There are positive signs that the economy has turned the corner, with the unemployment rate being an example. According to the U.S. Bureau of Labor Statistics, the national unemployment rate dropped to 5.9% as of September 30, 2014.

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

Loans held to maturity were $6.5 billion at September 30, 2014, a $97.4 million increase from December 31, 2013. This increase was due to our continued focus on capitalizing on growth opportunities in our correspondent lending programs in our real estate mortgage portfolio. This increase was partially offset by repayments made by clients in our production agriculture sectors.

Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2013. Adversely classified loans decreased to 2.4% of the portfolio at September 30, 2014, from 2.9% of the portfolio at December 31, 2013. 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/lease losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At September 30, 2014, $549.7 million of our loans were, to some level, guaranteed under these government programs.

Excluded from the ratios and volumes as discussed in this section are our investment securities. At September 30, 2014, our investment securities totaled $462.7 million, consisting of $416.5 million in mortgage-backed securities issued and guaranteed by Federal Agricultural Mortgage Corporation, the Small Business Administration (SBA), or the USDA, and $46.2 million in asset-backed securities, issued and guaranteed by SBA or USDA. Had this volume been included, the adversely classified asset ratio would be 2.2% at September 30, 2014, compared to 2.7% at December 31, 2013.

Risk Assets

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

As of:	**September 30 2014**	December 31 2013
Loans:		
Nonaccrual	**$ 66,024**	$ 139,397
Accruing restructured	**20,708**	2,101
Accruing loans 90 days or more past due	**2,718**	--
Total risk loans	**89,450**	141,498
Other property owned	**1,440**	3,315
Total risk assets	**$ 90,890**	$ 144,813
Risk loans as a percentage of total loans	**1.4%**	2.2%
Nonaccrual loans as a percentage of total loans	**1.0%**	2.2%
Total delinquencies as a percentage of total loans	**0.5%**	0.8%

Our risk assets have decreased significantly from December 31, 2013 and are at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

Nonaccrual loan volume represented 1.0% of our total portfolio. The decrease in nonaccrual loans was due to settling volume mainly through upgrading, payoffs, or paydowns on certain accounts in the dairy and beef industries. We are actively engaged in working with clients to provide individualized servicing plans and strategies. The majority of the remaining accounts in nonaccrual status require additional time and performance to bring them back into performing status. At September 30, 2014, 72.8% of our nonaccrual loans were current in repayment.

The increase in accruing restructured loans was primarily the result of upgrading nonaccrual dairy loans into accrual status.

The increase in accruing loans 90 days or more past due was primarily due to loans in a certain trade credit program which are guaranteed by the vendor and have a collection plan in place.

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

Allowance for Loan/Lease Losses

The allowance for loan/lease 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/lease losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

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

Allowance as a percentage of:	**September 30 2014**	December 31 2013
Loans	**0.4%**	0.4%
Nonaccrual loans	**37.5%**	17.7%
Total risk loans	**27.6%**	17.5%

The increase in the allowance as a percentage of nonaccrual and total risk loan ratios is primarily the result of the reduction in risk assets, which primarily consist of nonaccrual loan volume. In our opinion, the allowance for loan/lease losses was reasonable in relation to the risk in our loan portfolio at September 30, 2014.

LOANS HELD FOR SALE

We have loans held for sale under a rural residential mortgage program, which is designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or homes 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. At September 30, 2014, the volume in this program was $23.6 million, a $19.1 million increase from December 31, 2013. The increase was the result of our originations of new loans held for sale and from converting $7 million of loans held to maturity to loans held for sale. These increases were offset by selling $2.5 million of loans during the second quarter to a third party investor. These loans were securitized by the investor and sold back to AgStar as a mortgage-backed security. Similarly on October 30, 2014, $21.7 million of loans held for sale were sold to a third party investor, securitized by that investor, and also sold back to AgStar, $584 thousand as a mortgage-backed security and $21.1 million as an investment held for sale.

RESULTS OF OPERATIONS

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

For the nine months ended September 30	**2014**	2013
Net income	**$ 85,705**	$ 83,937
Return on average assets	**1.6%**	1.7%
Return on average equity	**10.5%**	11.7%

Changes in our return on average assets 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. Changes in our return on average equity are directly related to the changes in net income discussed in this section, changes in capital discussed in the Funding, Liquidity, and Capital section, and to the issuance of $100 million of preferred stock on May 30, 2013.

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

For the nine months ended September 30	**2014**	2013	**Increase (decrease) in net income**
Net interest income	**$ 139,056**	$ 129,138	**$ 9,918**
Provision for (reversal of) loan/lease losses	**600**	725	**125**
Patronage income	**14,307**	12,344	**1,963**
Other income, net	**27,628**	30,143	**(2,515)**
Operating expenses	**93,106**	85,474	**(7,632)**
Provision for (reversal of) income taxes	**1,580**	1,489	**(91)**
Net income	**$ 85,705**	$ 83,937	**$ 1,768**

Net interest income was $139.1 million for the nine months ended September 30, 2014.

The following table quantifies changes in net interest income for the nine months ended September 30, 2014 compared to the same period in 2013 (in thousands):

	2014 vs 2013
Changes in volume	$ 13,967
Changes in interest rates	(4,879)
Changes due to asset securitization	197
Changes in nonaccrual income and other	633
Net change	$ 9,918

The change in the provision for (reversal of) loan/lease losses was related to decreases in our risk loans.

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher average balance on our note payable and a higher patronage rate compared to the prior year.

The change in other income was primarily related to a decrease in fee income, partially offset by a decrease in losses related to other property owned.

We originate rural home loans for resale into the secondary market. We sold loans through the secondary market totaling $26.6 million through September 30, 2014 compared to $47.3 million for the same period in 2013. The fee income from this activity totaled $537 thousand for the nine months ended September 30, 2014 compared to $992 thousand for the same period of 2013.

The change in operating expenses was primarily related to increases in salaries and benefits expense, advertising/public relations expense, certain third party incentive program expenses, and Farm Credit System insurance expense.

Changes in our return on average assets and return on average 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

Our note payable matured on March 31, 2014 and was renewed for $6.9 billion with a maturity date of March 31, 2015. The note payable will be renegotiated at that time. 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 includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at September 30, 2014 or December 31, 2013.

Total equity increased $50.9 million from December 31, 2013 primarily due to net income for the period partially offset by accrued redemptions of nonqualified patronage allocations and preferred stock dividend accruals.

Farm Credit Administration (FCA) 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 10 in our 2013 Annual Report for a more complete description of these ratios. As of September 30, 2014, the ratios were as follows:

- The permanent capital ratio was 16.2%.
- The total surplus ratio was 15.9%.
- The core surplus ratio was 13.2%.

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.

RELATIONSHIP WITH AGRIBANK

We are required to invest in AgriBank capital stock as a condition of borrowing. On March 5, 2014, the AgriBank Board of Directors approved an amendment to the AgriBank capital plan which reduced the base required stock investment for all affiliated associations, including AgStar Financial Services, ACA from 2.5% to 2.25% effective March 31, 2014.

ADDITIONAL REGULATORY INFORMATION

Effective June 18, 2014, the FCA Board adopted a final rule to remove all requirements related to advisory votes at Farm Credit institutions. This rule eliminates the requirement for advisory votes on CEO and/or senior officer compensation.

OTHER RELEVANT INFORMATION

AgStar and certain other affiliated Associations are the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established in October, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Our total commitment is $20.0 million. On November 6, 2014, the first capital drawdown occurred.

CERTIFICATION

The undersigned certify they have reviewed AgStar Financial Services, ACA's September 30, 2014 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.

Spencer Enninga
Chairperson of the Board
AgStar Financial Services, ACA

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

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

November 7, 2014

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

As of:	September 30 2014	December 31 2013
ASSETS		
Loans held to maturity	$ **6,460,893**	$ 6,363,512
Allowance for loan/lease losses	**24,727**	24,725
Net loans held to maturity	**6,436,166**	6,338,787
Loans held for sale	**23,580**	4,470
Net loans	**6,459,746**	6,343,257
Investment securities	**462,681**	462,424
Assets held for lease, net	**39,033**	36,452
Accrued interest receivable	**70,662**	49,456
Investment in AgriBank, FCB	**137,476**	150,016
Premises and equipment, net	**16,636**	16,793
Other property owned	**1,440**	3,315
Other assets	**39,037**	44,643
Total assets	$ **7,226,711**	$ 7,106,356
LIABILITIES		
Note payable to AgriBank, FCB	$ **5,895,369**	$ 5,862,433
Subordinated debt	**100,000**	100,000
Accrued interest payable	**25,782**	22,787
Deferred tax liabilities, net	**3,030**	7,061
Other liabilities	**95,501**	57,915
Total liabilities	**6,119,682**	6,050,196
Contingencies and commitments	**--**	--
EQUITY		
Capital stock and participation certificates	**16,075**	15,912
Preferred stock	**100,000**	100,000
Allocated surplus	**354,286**	339,360
Unallocated surplus	**636,668**	600,888
Total equity	**1,107,029**	1,056,160
Total liabilities and equity	$ **7,226,711**	$ 7,106,356

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

CONSOLIDATED STATEMENTS OF INCOME

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

For the period ended September 30	*Three Months Ended* **2014**	2013	*Nine Months Ended* **2014**	2013
Interest income	**$ 72,504**	$ 68,664	**$ 213,924**	$ 200,263
Interest expense	**25,441**	23,925	**74,868**	71,125
Net interest income	**47,063**	44,739	**139,056**	129,138
Provision for (reversal of) loan/lease losses	**(77)**	(95)	**600**	725
Net interest income after provision for (reversal of) loan/lease los	**47,140**	44,834	**138,456**	128,413
Other income				
Patronage income	**4,768**	4,062	**14,307**	12,344
Net operating lease income	**440**	436	**1,214**	1,235
Financially related services income	**3,556**	4,188	**13,689**	13,830
Fee and miscellaneous income, net	**4,770**	4,324	**12,725**	15,078
Total other income	**13,534**	13,010	**41,935**	42,487
Operating expenses				
Salaries and employee benefits	**21,328**	20,056	**62,889**	59,339
Farm Credit System insurance	**1,780**	1,401	**5,312**	4,171
Other operating expenses	**8,781**	7,830	**24,905**	21,964
Total operating expenses	**31,889**	29,287	**93,106**	85,474
Income before income taxes	**28,785**	28,557	**87,285**	85,426
Provision for (reversal of) income taxes	**(4,009)**	(6,024)	**1,580**	1,489
Net income	**$ 32,794**	$ 34,581	**$ 85,705**	$ 83,937

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Preferred Stock	Allocated Surplus	Unallocated Surplus	Total Equity
Balance at December 31, 2012	$ 15,655	$ --	$ 302,789	$ 553,277	$ 871,721
Net income	--	--	--	83,937	83,937
Net surplus allocated under nonqualified patronage prograı	--	--	45,730	(45,730)	--
Accrued redemptions of prior year allocated patronage	--	--	(24,892)	--	(24,892)
Preferred stock issued	--	100,000	--	(3,701)	96,299
Preferred stock dividend	--	--	--	(3,132)	(3,132)
Capital stock and participation certificates issued	1,392	--	--	--	1,392
Capital stock and participation certificates retired	(1,241)	--	--	--	(1,241)
Balance at September 30, 2013	$ 15,806	$ 100,000	$ 323,627	$ 584,651	$ 1,024,084
Balance at December 31, 2013	$ 15,912	$ 100,000	$ 339,360	$ 600,888	$ 1,056,160
Net income	**--**	**--**	**--**	**85,705**	**85,705**
Net surplus allocated under nonqualified patronage prograı	**--**	**--**	**43,176**	**(43,176)**	**--**
Accrued redemptions of prior year allocated patronage	**--**	**--**	**(28,250)**	**--**	**(28,250)**
Preferred stock dividend	**--**	**--**	**--**	**(6,749)**	**(6,749)**
Capital stock and participation certificates issued	**1,156**	**--**	**--**	**--**	**1,156**
Capital stock and participation certificates retired	**(993)**	**--**	**--**	**--**	**(993)**
Balance at September 30, 2014	**$ 16,075**	**$ 100,000**	**$ 354,286**	**$ 636,668**	**$ 1,107,029**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report for the year ended December 31, 2013 (2013 Annual Report).

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

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

Recently Issued or Adopted Accounting Pronouncements

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

NOTE 2: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN/LEASE LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**September 30, 2014**		December 31, 2013	
	Amount	%	Amount	%
Real estate mortgage	**$ 3,338,814**	**51.7%**	$ 3,253,439	51.1%
Production and intermediate term	**1,725,747**	**26.7%**	1,770,700	27.8%
Agribusiness	**648,307**	**10.0%**	638,637	10.1%
Other	**748,025**	**11.6%**	700,736	11.0%
Total	**$ 6,460,893**	**100.0%**	$ 6,363,512	100.0%

The Other category is comprised of loans originated under our Mission Related Investment authority, finance and conditional sales leases, and energy, communication, rural residential real estate, and water and waste water loans.

Credit Quality and Delinquency

One credit quality indicator we utilize is the Farm Credit Administration (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, and
- Loss: loans are considered uncollectible.

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

	Acceptable		OAEM		Substandard/ Doubtful/Loss		Total
As of September 30, 2014	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	**$3,236,693**	**95.7%**	**$ 47,389**	**1.4%**	**$ 96,563**	**2.9%**	**$3,380,645**
Production and intermediate term	**1,675,167**	**96.0%**	**30,745**	**1.7%**	**39,714**	**2.3%**	**1,745,626**
Agribusiness	**642,262**	**98.8%**	**890**	**0.1%**	**7,104**	**1.1%**	**650,256**
Other	**723,534**	**96.5%**	**9,507**	**1.3%**	**16,366**	**2.2%**	**749,407**
Total	**$6,277,656**	**96.2%**	**$ 88,531**	**1.4%**	**$ 159,747**	**2.4%**	**$6,525,934**
As of December 31, 2013							
Real estate mortgage	$3,117,201	95.0%	$ 48,033	1.5%	$ 114,465	3.5%	$3,279,699
Production and intermediate term	1,704,111	95.4%	40,012	2.3%	41,638	2.3%	1,785,761
Agribusiness	585,988	91.5%	37,933	5.9%	16,813	2.6%	640,734
Other	680,384	96.9%	6,501	0.9%	15,311	2.2%	702,196
Total	$6,087,684	95.0%	$ 132,479	2.1%	$ 188,227	2.9%	$6,408,390

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
As of September 30, 2014						
Real estate mortgage	**$ 13,880**	**$ 9,163**	**$ 23,043**	**$3,357,602**	**$3,380,645**	**$ 1,585**
Production and intermediate term	**2,374**	**4,887**	**7,261**	**1,738,365**	**1,745,626**	**997**
Agribusiness	**--**	**26**	**26**	**650,230**	**650,256**	**--**
Other	**1,436**	**3,226**	**4,662**	**744,745**	**749,407**	**136**
Total	**$ 17,690**	**$ 17,302**	**$ 34,992**	**$6,490,942**	**$6,525,934**	**$ 2,718**
As of December 31, 2013						
Real estate mortgage	$ 14,371	$ 16,620	$ 30,991	$3,248,708	$3,279,699	$ --
Production and intermediate term	4,770	2,478	7,248	1,778,513	1,785,761	--
Agribusiness	--	--	--	640,734	640,734	--
Other	2,657	12,125	14,782	687,414	702,196	--
Total	$ 21,798	$ 31,223	$ 53,021	$6,355,369	$6,408,390	$ --

Risk Loans

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

As of:	**September 30 2014**	December 31 2013
Volume with specific reserves	**$ 8,613**	$ 26,523
Volume without specific reserves	**80,837**	114,975
Total risk loans	**$ 89,450**	$ 141,498
Total specific reserves	**$ 3,143**	$ 5,841
For the nine months ended September 30	**2014**	2013
Income on accrual risk loans	**$ 329**	$ 350
Income on nonaccrual loans	**4,174**	3,680
Total income on risk loans	**$ 4,503**	$ 4,030
Average risk loans	**$ 121,377**	$ 171,263

Continued improvement in credit quality has resulted in the total risk loans decreasing by $52.0 million and the total specific reserves decreasing by $2.7 million from December 31, 2013.

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 a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan/lease losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

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

	2014		2013	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 736**	**$ 594**	$ 8,598	$ 8,590
Production and intermediate term	**408**	**409**	2,734	2,743
Communication	**--**	**--**	9,005	9,005
Rural residential real estate	**190**	**190**	135	135
Total	**$ 1,334**	**$ 1,193**	$ 20,472	$ 20,473

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 following table presents troubled debt restructurings that defaulted during the nine months ended September 30 in which the modification date was within twelve months of the respective reporting period (in thousands):

	2014	2013
Real estate mortgage	**$ 55**	$ 8
Production and intermediate term	**5,145**	29
Total	**$ 5,200**	$ 37

The following table presents information regarding troubled debt restructurings outstanding (in thousands):

As of:	**September 30 2014**	December 31 2013
Troubled debt restructurings in accrual status	**$ 20,708**	$ 2,101
Troubled debt restructurings in nonaccrual status	**24,238**	54,861
Troubled debt restructurings	**$ 44,946**	$ 56,962

Troubled debt restructurings volume decreased $12.0 million in the first nine months of 2014, mainly due to paydowns or payoffs in the dairy and beef industries.

Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $780 thousand at September 30, 2014.

Allowance for Loan/Lease Losses

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

Nine months ended September 30	**2014**	2013
Balance at beginning of year	**$ 24,725**	$ 26,814
Provision for loan losses	**600**	725
Loan recoveries	**2,101**	1,189
Loan charge-offs	**(2,699)**	(3,349)
Balance at end of period	**$ 24,727**	$ 25,379

The decrease in allowance for loan/lease losses from September 30, 2013 was related to decreases in our risk loans in 2014. This improvement was offset by an increase in required general allowances as an adjustment for current conditions relating to a wet spring and subsequent replanting resulting in decreased yield and from the decline in corn and soybean prices that has occurred in our territory.

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective March 31, 2014, 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. Previously, the required investment was equal to 2.5%. There was no change in the required investment for growth exceeding the targeted rate.

The balance of our investment in AgriBank, all required stock, was $137.5 million at September 30, 2014 and $150.0 million at December 31, 2013.

NOTE 4: INVESTMENT SECURITIES

We held investment securities of $462.7 million at September 30, 2014 and $462.4 million at December 31, 2013. Our investment securities consisted of:

- Mortgage-backed securities (MBS) issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) or guaranteed by the Small Business Administration (SBA) or by the United States Department of Agriculture (USDA), and
- Asset-backed securities (ABS) guaranteed by SBA or USDA.

Our investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents further information on investment securities (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
As of September 30, 2014					
MBS	**$ 416,502**	**$ 2,521**	**$ (9,984)**	**$ 409,039**	**3.9%**
ABS	**46,179**	**25**	**(2,173)**	**44,031**	**2.3%**
Total	**$ 462,681**	**$ 2,546**	**$ (12,157)**	**$ 453,070**	**3.7%**
As of December 31, 2013					
MBS	$ 419,606	$ 2,474	$ (11,894)	$ 410,186	4.1%
ABS	42,818	87	(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 Income and totaled $11.7 million and $12.6 million for the nine months ended September 30, 2014 and 2013, respectively.

The following table presents contractual maturities of our investment securities (in thousands):

As of September 30, 2014	Amortized Cost
Less than one year	**$ 845**
One to five years	**30,885**
Five to ten years	**77,156**
More than ten years	**353,795**
Total	**$ 462,681**

A summary of 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 September 30, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$ 31,915**	**$ (2,029)**	**$ 185,393**	**$ (7,955)**
ABS	**12,321**	**(869)**	**26,434**	**(1,304)**
Total	**$ 44,236**	**$ (2,898)**	**$ 211,827**	**$ (9,259)**

NOTE 5: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 16 in our 2013 Annual Report for a more complete description of the three input levels.

Recurring Basis

We had loans held for sale of $23.6 million as of September 30, 2014 and $4.5 million at December 31, 2013, which were measured at fair value on a recurring basis and valued using Level 3 unobservable inputs. Total gains related to these loans of $328 thousand were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Income during the nine months ended September 30, 2014.

We also had forward contacts of $14.6 million as of September 30, 2014 and $3.0 million at December 31, 2013, 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. These derivatives were measured at fair value on a recurring basis and valued using Level 1 fair value inputs. Total losses related to these derivatives of $336 thousand were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Income during the nine months ended September 30, 2014.

Non-Recurring Basis

We may also be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

	As of September 30, 2014				**Nine months ended**
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	**$ --**	**$ 1,605**	**$ 4,139**	**$ 5,744**	**$ 1,351**
Other property owned	**--**	**--**	**1,908**	**1,908**	**564**

	As of December 31, 2013				Nine months ended September 30, 2013
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	$ --	$ 1,876	$ 19,840	$ 21,716	$ (4,504)
Other property owned	--	--	5,270	5,270	(1,561)

Valuation Techniques

Loans held for sale: The loans held for sale portfolio is held at fair value; therefore, carrying amount is equal to 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.

Derivatives: If an active market exists, the fair value is based on currently quoted market prices. For those derivatives not actively traded on an exchange, we estimate fair value by using key inputs such as yield curves, credit curves, and prepayment rates. Typically, our model inputs can be observed in a liquid market.

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.

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 7, 2014, which is the date the consolidated financial statements were available to be issued. Effective October 1, 2014, Jase Wagner was named to the position of Senior Vice President and Chief Financial Officer. There have been no other material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.