AgStar Financial Services, ACA

Quarterly Report
March 31, 2016

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, 2015 (2015 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:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2015 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

Economic and agricultural conditions have shown very little change in the first quarter of 2016. We serve many sectors in agriculture including our primary industries of grain, swine, and dairy. Additionally, we serve the rural housing, energy, and food processing and distribution segments. Credit quality, delinquencies, and nonaccrual measures remained stable during the quarter. Prospects are more challenging, particularly for grain and dairy producers. While many clients enjoy large equity positions, some future deterioration is expected particularly if lower grain prices continue throughout 2016 and beyond. Nonetheless, the quality of the crop portfolio continues to be strong at 97.5% non-adverse.

As of April 12, 2016, United States Department of Agriculture (USDA) projected 2015/16 U.S. corn production at 13.6 billion bushels, equal to its January projection and down 4.4% from the estimate for the 2014/15 marketing year. Projected average yields are 168.4 bushels per acre. The 2015/16 season-average corn price received by producers is projected at $3.40 to $3.70 per bushel compared to an estimated $3.70 for the 2014/15 period. The USDA is currently projecting 2015/16 soybean production at 3.9 billion bushels, roughly flat from 2014/15 estimated levels, with yield per harvested acre of a record 48 bushels. The 2015/16 season-average soybean price is projected at $8.50 to $9.00 per bushel compared to an estimated $10.10 per bushel in 2014/15.

More favorable growing conditions within our territory, coupled with generally favorable conditions in the broader Corn Belt, led to strong 2015 production from grain producers. In areas of southern Minnesota, for example, estimated corn and soybean yields well exceeded 200 and 60 bushels per acre, respectively. Nevertheless, weakness in national spot prices kept margins for grain producers narrow, and will likely remain narrow in 2016 based on current expectations and futures prices.

U.S. corn growers expect to plant 93.6 million acres of corn this coming year, according to the March 2016 Prospective Plantings report of the USDA's National Agricultural Statistics Service (NASS), up 6% from last year. This is the first increase in corn planted acreage since 2012 and, if realized, will be the third largest corn acreage since 1944. The increase is primarily occurring in regions outside of Minnesota and Wisconsin, which are expected to see less than a 1% increase in acres planted combined. In contrast to the expectations for corn, U.S. soybean growers expect to plant 82.2 million acres to soybeans, a less than one percent decrease from 2015. Specifically, Minnesota growers expect a 3% decline in soybean plantings whereas Wisconsin expects a 4% increase in acres planted.

Following two straight years of profitable growth, prices and margins were less favorable for hog producers in 2015. Nevertheless, the quality of the swine portfolio remains very strong at 99.0% non-adverse. As of March, there were 67.6 million hogs and pigs on U.S. farms, slightly higher than a year ago but down 1% since December when it hit a near-term high, according to the Quarterly Hogs and Pigs report published by NASS. Hog producers intend to farrow 2.8 million sows during the March to May 2016 quarter, down 1% from the same period a year ago. The first quarter of 2016 saw the spot price for lean hogs recover from 5-year lows of $50 per hundredweight (cwt) to above $70 per cwt. The protracted strength of the U.S. dollar has had more limited impact on exports than originally expected. USDA pork exports for 2015 are modestly higher compared to 2014, and forecasts for 2016 were higher still in January despite a near decade high price of the dollar. The April USDA forecast for pork exports has risen 1.5% since January coinciding with a 5% decline in the U.S. Dollar Index over the same time period.

In the dairy sector, the USDA milk production forecast for 2016 at 211.8 billion pounds is 1.5% higher than 2015, and reports that milk production across the country is steady to higher as spring weather advances. The effects of ongoing drought conditions in the West are being more than offset by increased production in the Midwest – most notably in Wisconsin thanks to favorable weather conditions and ample supply of feed. However, the increased supply in the Midwest has not been met with a comparable increase in demand and/or capacity from processors. Declining expectations for milk prices continued into 2016 as the dairy industry's production shift continues to work its way through the system. The USDA estimates an average price received by farmers for all milk of $15.00 to $15.50 per cwt in 2016, below the previous forecast in January, and down considerably from the $23.97 received in 2014. USDA's Farm Service Agency announced a February 2016 MPP-Dairy margin of about $7.91/cwt, down more than $1/cwt from December 2015. At a dairy margin of $8 or less, government insurance payments are possible depending on the level of coverage chosen by the dairy producer. We expect many dairy operators will not be profitable in 2016 unless the spot price of milk materially improves. The quality of the dairy portfolio declined modestly from 97.5% non-adverse at year end to 95.1% at March 31.

After years of steady increase, farm land values in our area have moderated and declined slightly in some areas; and are expected to continue to moderate as we progress through 2016 in response to lower commodity prices. According to a USDA August 2015 survey, cropland values in Minnesota declined 2.5% compared to the August 2014 survey. Given solid net worth positions and conservative borrowing characteristics, U.S. agriculture is well-positioned to handle a decline in land values without enduring significant financial stress and hardship. Additionally, the moderation in land values has the potential to lead to declines in cash rent. According to a survey done by AgriBank, cash rents in Minnesota declined by 2.7% in 2015.

Our rural home mortgage portfolio credit quality remains strong. The economy continues to generate a number of positive economic signals for the housing market. Home ownership in the U.S. is now 63.7% which is just off 50-year lows. According to the CoreLogic HPI, home prices nationwide increased by 6.8% year over year in February 2016 and forecasts prices will rise 5.2% over the following 12 months. Additionally, reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand in late February and March, and the U.S. Bureau of Labor Statistics reported that the national unemployment rate remains at 5.0%. The current economy, low interest rates and housing prices have made the environment good for new home buyers.

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

Loans Held to Maturity

Total loans were $7.7 billion at March 31, 2016, an increase of $109.0 million from December 31, 2015. The increase was primarily due to an increase in our net participations purchased, partially offset by repayments made by borrowers in our production agriculture sectors.

Portfolio Credit Quality

The credit quality of our portfolio declined slightly from December 31, 2015. Adversely classified loans increased to 2.3% of the portfolio at March 31, 2016, from 1.8% of the portfolio at December 31, 2015. 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, Federal Agricultural Mortgage Corporation and government agency guarantee programs are used to reduce the risk of loss. At March 31, 2016, $669.0 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2016**	December 31 2015
Loans:		
Nonaccrual	**$ 54,118**	$ 48,897
Accruing restructured	**14,290**	21,072
Accruing loans 90 days or more past due	**3,419**	124
Total risk loans	**71,827**	70,093
Other property owned	**1,325**	1,060
Total risk assets	**$ 73,152**	$ 71,153
Total risk loans as a percentage of total loans	**0.9%**	0.9%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.6%
Current nonaccrual loans as a percentage of total nonaccrual loans	**58.1%**	69.1%
Total delinquencies as a percentage of total loans	**0.8%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have increased from December 31, 2015, but remain at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The increase in nonaccrual loans was largely due to downgrading of certain accounts in our cash grains and dairy portfolios.

The decrease in accruing restructured loans was the result of an account in our dairy portfolio being downgraded to a nonaccrual loan.

The increase in accruing loans 90 days or more past due was primarily due to certain real estate mortgage and production and intermediate term loans in our cash grains portfolio. 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 increase in total delinquencies as a percentage of total loans was the result of financial stress in the grain industry.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of:	**March 31 2016**	December 31 2015
Allowance as a percentage of:		
Loans	**0.4%**	0.4%
Nonaccrual loans	**54.4%**	55.4%
Total risk loans	**41.0%**	38.6%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2016.

LOANS HELD FOR SALE

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 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 March 31, 2016, the volume in this program was $28.0 million, a $7.4 million decrease from December 31, 2015. The decrease was the result of loans being sold to and securitized by a third party investor and partially offset by loans held for sale being originated.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31	**2016**	2015
Net income	**$ 27,246**	$ 27,209
Return on average assets	**1.3%**	1.5%
Return on average members' equity	**8.8%**	9.4%

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

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31	**2016**	2015	**Increase (decrease) in net income**
Net interest income	**$ 50,737**	$ 48,126	**$ 2,611**
Provision for loan losses	**2,104**	--	**(2,104)**
Patronage income	**5,904**	4,312	**1,592**
Other income, net	**10,321**	9,007	**1,314**
Operating expenses	**34,877**	31,220	**(3,657)**
Provision for income taxes	**2,735**	3,016	**281**
Net income	**$ 27,246**	$ 27,209	**$ 37**

The following table quantifies changes in net interest income for the three months ended March 31, 2016 compared to the same period in 2015.

Changes in Net Interest Income

(in thousands)	2016 vs 2015
Changes in volume	$ 5,588
Changes in interest rates	(2,518)
Changes in asset securitization	51
Changes in nonaccrual income and other	(510)
Net change	$ 2,611

The change in the provision for loan losses was related to the deterioration of loans in our grain portfolio.

Patronage income was impacted by three factors in the quarter. First, it was impacted by an increase in patronage income received on loans in the AgriBank Asset Pool Program due to a higher average balance of our portfolio in the AgriBank Asset Pool Program, compared to the prior year. Secondly, additional patronage accrued related to an increase in wholesale spread on our note payable. Thirdly, the first two factors were partially offset by a decrease in patronage income related to a lower patronage rate applied to the average balance on our note payable with AgriBank compared to the prior year.

The change in other income was largely due to an increase in net fee income and crop insurance income. We originated rural home loans for resale into the secondary market. We sold loans in the secondary market totaling $10.0 million through March 31, 2016 compared to $15.2 million for the same period in 2015. The fee income from this activity totaled $238 thousand for the three months ended March 31, 2016 compared to $301 thousand for the same period of 2015.

The change in operating expenses was primarily related to increases in pension expense and Farm Credit System Insurance Corporation (FCSIC) expense which were both higher than initial expectations. FCSIC expense increased in 2016 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 13 basis points in 2015 to 16 basis points for the first half and 18 basis points for the second half of 2016.The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on March 31, 2016 and was renewed for $8.5 billion with a maturity date of March 31, 2017. 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. 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.

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 March 31, 2016 or December 31, 2015.

Total equity increased $25.3 million from December 31, 2015 primarily due to net income for the period, which was partially offset by preferred stock dividend accruals and accrued redemptions of nonqualified patronage allocations.

Farm Credit Administration regulations require us to maintain a certain level for our permanent capital ratio, total surplus ratio, and core surplus ratio. Refer to Note 11 in our 2015 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of	Regulatory Minimums	**March 31 2016**	December 31 2015
Permanent capital ratio	7.0%	**14.6%**	14.8%
Total surplus ratio	7.0%	**14.4%**	14.5%
Core surplus ratio	3.5%	**12.0%**	12.3%

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.

REGULATORY MATTERS

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the 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 final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule.

The effective date of the new capital requirements is January 1, 2017. We are currently evaluating the impact of the recently announced changes.

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.

CERTIFICATION

The undersigned have reviewed the March 31, 2016 Quarterly Report of AgStar Financial Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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

May 6, 2016

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		**March 31 2016**		December 31 2015
ASSETS				
Loans held to maturity	**$**	**7,681,063**	$	7,572,042
Allowance for loan losses		**29,426**		27,071
Net loans held to maturity		**7,651,637**		7,544,971
Loans held for sale		**27,954**		35,380
Net loans		**7,679,591**		7,580,351
Unrestricted cash		**2,000**		1,900
Investment securities		**453,843**		442,972
Assets held for lease, net		**37,094**		38,396
Accrued interest receivable		**60,018**		58,734
Investment in AgriBank, FCB		**174,880**		171,395
Premises and equipment, net		**17,392**		18,072
Other property owned		**1,325**		1,060
Other assets		**43,006**		48,830
Total assets	**$**	**8,469,149**	$	8,361,710
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**7,040,631**	$	6,949,764
Subordinated debt		**99,522**		99,491
Accrued interest payable		**31,540**		26,805
Deferred tax liabilities, net		**2,133**		3,614
Other liabilities		**42,885**		54,902
Total liabilities		**7,216,711**		7,134,576
Contingencies and commitments (Note 6)				
EQUITY				
Preferred stock		**100,000**		100,000
Capital stock and participation certificates		**16,054**		16,085
Allocated surplus		**420,418**		406,758
Unallocated surplus		**715,966**		704,291
Total equity		**1,252,438**		1,227,134
Total liabilities and equity	**$**	**8,469,149**	$	8,361,710

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Three Months Ended	
For the period ended March 31	**2016**	2015
Interest income	**$ 81,914**	$ 74,081
Interest expense	**31,177**	25,955
Net interest income	**50,737**	48,126
Provision for loan losses	**2,104**	--
Net interest income after provision for loan losses	**48,633**	48,126
Other income		
Patronage income	**5,904**	4,312
Net operating lease income	**378**	480
Financially related services income	**5,003**	4,511
Fee and miscellaneous income, net	**4,940**	4,016
Total other income	**16,225**	13,319
Operating expenses		
Salaries and employee benefits	**23,936**	21,504
Farm Credit System insurance	**2,796**	2,059
Other operating expenses	**8,145**	7,657
Total operating expenses	**34,877**	31,220
Income before income taxes	**29,981**	30,225
Provision for income taxes	**2,735**	3,016
Net income	**$ 27,246**	$ 27,209
Other comprehensive income		
Investment securities available-for-sale:		
Not-other-than-temporarily-impaired investments	**$ --**	$ 119
Total other comprehensive income	**--**	119
Comprehensive income	**$ 27,246**	$ 27,328

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)

	Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Income	Total Members'
Balance at December 31, 2014	$ 100,000	$ 16,177	$ 371,004	$ 650,915	$ 82	$ 1,138,178
Net income	--	--	--	27,209	--	27,209
Other comprehensive income	--	--	--	--	119	119
Net surplus allocated under nonqualified patronage program	--	--	13,913	(13,913)	--	--
Redemption of prior year allocated patronage	--	--	(147)	--	--	(147)
Preferred stock dividend	--	--	--	(1,687)	--	(1,687)
Capital stock and participation certificates issued	--	268	--	--	--	268
Capital stock and participation certificates retired	--	(368)	--	--	--	(368)
Balance at March 31, 2015	$ 100,000	$ 16,077	$ 384,770	$ 662,524	$ 201	$ 1,163,572
Balance at December 31, 2015	$ 100,000	$ 16,085	$ 406,758	$ 704,291	$ --	$ 1,227,134
Net income	**--**	**--**	**--**	**27,246**	**--**	**27,246**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**13,883**	**(13,883)**	**--**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(223)**	**--**	**--**	**(223)**
Preferred stock dividend	**--**	**--**	**--**	**(1,688)**	**--**	**(1,688)**
Capital stock and participation certificates issued	**--**	**292**	**--**	**--**	**--**	**292**
Capital stock and participation certificates retired	**--**	**(323)**	**--**	**--**	**--**	**(323)**
Balance at March 31, 2016	**$ 100,000**	**$ 16,054**	**$ 420,418**	**$ 715,966**	**$ --**	**$ 1,252,438**

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, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016. 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, 2015 (2015 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.

Recently Issued or Adopted Accounting Pronouncements

We are currently evaluating the impact of accounting standards that have been issued, but are not yet effective on our Consolidated Financial Statements. Refer to Note 2 in our 2015 Annual Report for additional information.

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

Loans by Type

(dollars in thousands)

As of:	March 31, 2016			December 31, 2015		
		Amount	%		Amount	%
Real estate mortgage	**$**	**3,701,924**	**48.2%**	$	3,675,008	48.5%
Production and intermediate term		**1,898,595**	**24.7%**		2,020,921	26.7%
Agribusiness		**996,000**	**13.0%**		920,347	12.2%
Other		**1,084,544**	**14.1%**		955,766	12.6%
Total	**$**	**7,681,063**	**100.0%**	$	7,572,042	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.

Credit Quality

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
- Loss: loans are considered uncollectible

We had no loans categorized as loss at March 31, 2016 or December 31, 2015.

Credit Quality of Loans

(dollars in thousands)

	Acceptable			OAEM			Substandard/ Doubtful			Total		
As of March 31, 2016		Amount	%		Amount	%		Amount	%		Amount	%
Real estate mortgage	**$**	**3,570,700**	**95.6%**	**$**	**87,534**	**2.3%**	**$**	**78,148**	**2.1%**	**$**	**3,736,382**	**100.0%**
Production and intermediate term		**1,799,518**	**93.9%**		**51,964**	**2.7%**		**64,458**	**3.4%**		**1,915,940**	**100.0%**
Agribusiness		**970,633**	**97.2%**		**10,516**	**1.1%**		**17,047**	**1.7%**		**998,196**	**100.0%**
Other		**1,035,661**	**95.3%**		**29,746**	**2.7%**		**21,591**	**2.0%**		**1,086,998**	**100.0%**
Total	**$**	**7,376,512**	**95.4%**	**$**	**179,760**	**2.3%**	**$**	**181,244**	**2.3%**	**$**	**7,737,516**	**100.0%**

As of December 31, 2015	Acceptable Amount	%	OAEM Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
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%

Note: Accruing loans include accrued interest receivable.

Delinquency

Aging Analysis of Loans

(in thousands)

As of March 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 12,434**	**$ 9,832**	**$ 22,266**	**$ 3,714,116**	**$ 3,736,382**	**$ 2,729**
Production and intermediate term	**25,188**	**7,037**	**32,225**	**1,883,715**	**1,915,940**	**690**
Agribusiness	**144**	**--**	**144**	**998,052**	**998,196**	**--**
Other	**2,130**	**2,043**	**4,173**	**1,082,825**	**1,086,998**	**--**
Total	**$ 39,896**	**$ 18,912**	**$ 58,808**	**$ 7,678,708**	**$ 7,737,516**	**$ 3,419**

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	90 Days or More 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

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**March 31 2016**	December 31 2015
Volume with specific reserves	**$ 7,050**	$ 4,785
Volume without specific reserves	**64,777**	65,308
Total risk loans	**$ 71,827**	$ 70,093
Total specific reserves	**$ 2,640**	$ 2,230
For the three months ended March 31	**2016**	2015
Income on accrual risk loans	**$ 252**	$ 362
Income on nonaccrual loans	**1,368**	1,961
Total income on risk loans	**$ 1,620**	$ 2,323
Average risk loans	**$ 69,957**	$ 77,349

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at March 31, 2016.

Troubled Debt Restructurings (TDRs)

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

We completed TDRs of certain production and intermediate term loans during the three months ended March 31, 2016 and 2015. Our recorded investment in these loans just prior to restructuring was $242 thousand and $189 thousand during the three months ended March 31, 2016 and 2015, respectively. Our recorded investment in these loans immediately following the restructuring was $236 thousand and $188 thousand during the three months ended March 31, 2016 and 2015, respectively. 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 during the three months ended March 31, 2016 were deferral of principal and extension of maturity.

We had TDRs in the production and intermediate term loan category of $136 thousand and $49 thousand that defaulted during the three months ended March 31, 2016 and 2015, respectively, in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	**March 31** **2016**	December 31 2015
Accrual status:		
Real estate mortgage	**$ 12,705**	$ 17,193
Production and intermediate term	**1,585**	3,879
Other	**--**	--
Total TDRs in accrual status	**$ 14,290**	$ 21,072
Nonaccrual status:		
Real estate mortgage	**$ 8,977**	$ 4,929
Production and intermediate term	**5,453**	5,582
Other	**8,124**	8,407
Total TDRs in nonaccrual status	**$ 22,554**	$ 18,918
Total TDRs status:		
Real estate mortgage	**$ 21,682**	$ 22,122
Production and intermediate term	**7,038**	9,461
Other	**8,124**	8,407
Total TDRs	**$ 36,844**	$ 39,990

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $1.6 million at March 31, 2016.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31	**2016**	2015
Balance at beginning of period	**$ 27,071**	$ 23,655
Provision for loan losses	**2,104**	--
Loan recoveries	**412**	256
Loan charge-offs	**(161)**	(138)
Balance at end of period	**$ 29,426**	$ 23,773

The increase in allowance for loan losses from March 31, 2015 was related to provision expense recorded to reflect the deterioration in the grain portfolio.

NOTE 3: INVESTMENT SECURITIES

We have held-to-maturity investment securities of $453.8 million at March 31, 2016 and $443.0 million at December 31, 2015. 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)

- 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 March 31, 2016 and December 31, 2015.

Additional Held-to-Maturity Investment Securities Information

(dollars in thousands) **As of March 31, 2016**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	**$ 409,347**	**$ 3,180**	**$ (7,267)**	**$ 405,260**	**4.0%**
ABS	**39,560**	**8**	**(2,254)**	**37,314**	**2.5%**
Municipal bonds	**4,936**	**--**	**(93)**	**4,843**	**6.4%**
Total	**$ 453,843**	**$ 3,188**	**$ (9,614)**	**$ 447,417**	**3.9%**

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%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $4.1 million and $3.8 million for the three months ended March 31, 2016 and 2015, respectively.

Contractual Maturities of Held-to-Maturity Investment Securities

(in thousands) **As of March 31, 2016**	Amortized Cost
Less than one year	**$ 1,099**
One to five years	**29,660**
Five to ten years	**68,226**
More than ten years	**354,858**
Total	**$ 453,843**

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 March 31, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$ 21,392**	**$ 344**	**$ 125,991**	**$ 6,923**
ABS	**4,830**	**340**	**30,041**	**1,914**
Municipal bonds	**4,823**	**93**	**--**	**--**
Total	**$ 31,045**	**$ 777**	**$ 156,032**	**$ 8,837**

	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 bonds	4,665	251	--	--
Total	$ 115,386	$ 3,010	$ 179,550	$ 8,830

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 March 31, 2016, the majority of the $8.8 million unrealized loss greater than 12 months represents unamortized premium.

We had no outstanding available-for-sale investment securities at March 31, 2016 or December 31, 2015.

Additional Available-for-Sale Investment Securities Information

(in thousands) For the three months ended March 31		**2016**		2015
Proceeds from sales	**$**	**21,495**	$	--
Realized gains on sales, net		**265**		--
Unrealized gains		**--**		119

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

NOTE 4: 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. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $4.1 million at March 31, 2016 and $4.2 million at December 31, 2015.

The investment was evaluated for impairment. To date, we have not recognized any impairment on this investment. During the three months ended March 31, 2016 we received a distribution of $250 thousand as the RBIC sold an investment. The distribution was a return of contributed capital and, therefore, reduced our recorded investment. To date, no income has been distributed from the RBIC.

NOTE 5: EQUITY

Regulatory Capitalization Requirements

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. The effective date of the new capital requirements is January 1, 2017.

FCA Revised Capital Requirements

	Regulatory Minimums	**Capital Conservation Buffer**	**Total**
Risk adjusted:			
Common equity Tier 1 ratio	4.5%	2.5%	7.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%
Total capital ratio	8.0%	2.5%	10.5%
Non-risk adjusted:			
Tier 1 leverage ratio	4.0%	1.0%	5.0%

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

NOTE 6: 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 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 are among the forming limited partners in a RBIC. Refer to Note 4 for additional discussion regarding this commitment.

NOTE 7: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2015 Annual Report 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 $28.0 million and $35.4 million as of March 31, 2016 and December 31, 2015, respectively, which were valued using Level 3 inputs. Total fair value gains related to these loans of $379 thousand for the three months ended March 31, 2016 and $192 thousand for the same period of 2015, 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. We had no investment securities available-for-sale at March 31, 2016 or December 31, 2015. Gains on available-for-sale investments totaled $119 thousand for the three months ended March 31, 2015, which were recognized in "Other comprehensive income" in the Consolidated Statements of Comprehensive Income. During the three months ended March 31, 2016 we sold available-for-sale investment securities with total sales proceeds of $21.5 million, resulting in a gain of $265 thousand, which was recognized in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. We had no sales of available-for-sale investment securities during the three months ended March 31, 2015.

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 $45.3 million and $42.7 as of March 31, 2016 and December 31, 2015, 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. 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 $799 thousand for the three months ended March 31, 2016, compared to $125 thousand for the same period of 2015. 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 are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as 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. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	As of March 31, 2016				Three months ended March 31, 2016
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	**$ --**	**$ 1,279**	**$ 3,352**	**$ 4,631**	**$ (527)**
Other property owned	**--**	**--**	**1,510**	**1,510**	**31**

	As of December 31, 2015				Three months ended March 31, 2015
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	$ --	$ 1,493	$ 1,190	$ 2,683	$ (553)
Other property owned	--	--	1,473	1,473	(568)

NOTE 8: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 6, 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 Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.