GROWING
Rural Wisconsin.
ROOTED
in Agriculture.

2012 BADGERLAND FINANCIAL ANNUAL REPORT

AGRICULTURE.

It is what we do and who we are.

As we reflect on 2012, it will certainly be remembered as stressful for many Wisconsin farm families as a result of adverse weather conditions, prompting Badgerland Financial to make a special, one-time patronage distribution totaling $5.2 million to our members last October. These times remind us of the true value of working with a cooperative that is 100 percent dedicated to Wisconsin agriculture. Your member-elected directors are focused on maintaining the financial strength necessary to respond to your needs during both good and difficult times. It's this never-ending commitment and an inherent trust that drives Badgerland Financial and the entire Farm Credit System.

After all, serving agriculture is not only what we do. It is who we are.

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Badgerland Financial, ACA

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 contact us at 1430 North Ridge Drive, Prairie du Sac, Wisconsin 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 also available through AgriBank’s website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website approximately 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

To our Members, Customers, Friends, and Business Affiliates:

Net farm income in Wisconsin is expected to exceed $3 billion in 2012, despite widespread drought across much of the state. Producers generally entered 2012 with strong financial positions and the credit quality of our loan portfolio actually improved during 2012 despite the challenging growing conditions. Higher commodity prices and crop insurance proceeds helped to partially offset the impact of reduced yields. Unfortunately, subsoil moisture remains short, and if dry conditions persist, 2013 may be difficult for producers.

We at Badgerland Financial understand these cycles and take seriously our responsibility to offer financial tools and specialized knowledge to help our customers navigate these challenging times. Our team members live and breathe agriculture every day. In fact, most grew up on farms and many are actively engaged in farming today.

We know agriculture. It is who we are and what we do.

Our financial strength, as outlined in this Annual Report, provides the capacity to serve agriculture and rural Wisconsin through these market cycles. Our earnings in 2012 were good, our portfolio is solid, and our capital position is strong.

As a cooperative, we are owned by our members/customers, and they benefit directly from our financial success. The Board declared a total of $14.2 million in cash patronage dividends for business in 2012, including a special mid-year payment designed to help members with drought-related cash needs. Since the patronage program began in 2004, Badgerland Financial has paid total cash patronage dividends of nearly $75 million to our members across southern Wisconsin.

We greatly value our relationships with you and are proud to be a part of Wisconsin agriculture and the rural communities we call home.

Sincerely,

Mike Winker
Chairperson of the Board
Badgerland Financial, ACA

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

March 7, 2013

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Badgerland Financial, ACA

(Dollars in thousands)

	2012	2011	2010	2009	2008
Statement of Condition Data					
Loans	**$2,855,906**	$2,600,884	$2,585,578	$2,261,459	$1,983,538
Allowance for loan losses	**4,540**	6,621	13,081	17,357	9,385
Net loans	**2,851,366**	2,594,263	2,572,497	2,244,102	1,974,153
Investment in AgriBank, FCB	**94,045**	83,317	79,930	76,633	73,557
Other property owned	**3,664**	5,270	255	1,306	--
Equity investment	**3,235**	1,885	1,235	503	250
Other assets	**52,847**	49,111	42,278	47,557	43,393
Total assets	**$3,005,157**	$2,733,846	$2,696,195	$2,370,101	$2,091,353
Obligations with maturities of one year or less	**$2,389,009**	$2,185,414	$2,218,838	$1,957,898	$1,716,834
Total liabilities	**2,389,009**	2,185,414	2,218,838	1,957,898	1,716,834
Capital stock and participation certificates	**7,852**	7,548	7,362	7,011	6,619
Unallocated surplus	**608,296**	540,884	469,995	405,192	367,900
Total members' equity	**616,148**	548,432	477,357	412,203	374,519
Total liabilities and members' equity	**$3,005,157**	$2,733,846	$2,696,195	$2,370,101	$2,091,353
Statement of Income Data					
Net interest income	**$85,711**	$84,523	$74,547	$64,204	$55,641
(Reversal of) provision for loan losses	**(2,120)**	(5,401)	(997)	12,657	7,751
Patronage income	**20,370**	17,061	18,584	14,339	9,908
Other expense, net	**26,553**	24,481	17,118	20,247	17,205
Provision for income taxes	**53**	2,621	2,249	2,552	1,896
Net income	**$81,595**	$79,883	$74,761	$43,087	$38,697
Key Financial Ratios					
Return on average assets	**2.9%**	2.9%	3.1%	1.9%	1.8%
Return on average members' equity	**14.0%**	15.6%	17.0%	11.1%	10.8%
Net interest income as a percentage of average earning assets	**3.2%**	3.2%	3.2%	3.0%	2.8%
Members' equity as a percentage of total assets	**20.5%**	20.1%	17.7%	17.4%	17.9%
Net charge-offs as a percentage of average loans	**--**	--	0.1%	0.2%	--
Allowance for loan losses as a percentage of loans	**0.2%**	0.3%	0.5%	0.8%	0.5%
Permanent capital ratio	**15.9%**	15.0%	13.9%	12.7%	13.8%
Total surplus ratio	**15.6%**	14.8%	13.7%	12.4%	13.5%
Core surplus ratio	**15.6%**	14.8%	13.7%	12.4%	13.5%
Other					
Patronage distributions	**$14,183**	$9,994	$5,758	$5,395	$5,239

The patronage distribution to members accrued for the year ended December 31, 2012 is distributed in cash during the first quarter of 2013. In addition to the previously accrued patronage payable to members, a special, one-time mid-year patronage distribution of $5.2 million was paid in cash in October 2012. Refer to Note 8 for additional information. The patronage distributions accrued for the years ended December 31, 2011, 2010, 2009, and 2008 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock, or allocated surplus during these periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Badgerland Financial, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of Badgerland Financial, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial position and results of operations.

During the third quarter of 2008, our name was officially changed from Badgerland Farm Credit Services, ACA to Badgerland Financial, ACA.

The Farm Credit System

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 82 customer owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and operated by the rural customers the System serves – the American farmer and rancher.

AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). Badgerland Financial, ACA is one of the affiliated associations in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. The Farm Credit System Insurance Corporation (Insurance Corporation) ensures the timely payment of principal and interest on Systemwide debt obligations, the retirement of protected borrower capital at par or stated value, and is used for other specified purposes.

Forward-Looking Information

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial, and economic conditions and developments in the United States (U.S.) and abroad,
- economic fluctuations in the agricultural and farm-related business sectors,
- unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions,
- actions taken by the Federal Reserve System in implementing monetary policy,
- credit, interest rate, and liquidity risk inherent in our lending activities, and
- changes in our assumptions for determining the allowance for loan losses, other than temporary impairment, and fair value measurements.

Loan Portfolio

Total loans were $2.9 billion at December 31, 2012, an increase of $255.0 million from December 31, 2011. The components of total loans are outlined in the following table (in thousands):

As of December 31	**2012**	2011	2010
Real estate mortgage	**$1,594,863**	$1,400,690	$1,230,918
Production and intermediate term	**835,624**	841,407	903,971
Agribusiness	**251,464**	230,519	322,239
Communication	**70,625**	38,446	25,928
Rural residential real estate	**15,961**	16,042	21,962
Finance leases	**--**	--	4,883
Other	**74,303**	53,224	41,212
Nonaccrual	**13,066**	20,556	34,465
Total loans	**$2,855,906**	$2,600,884	$2,585,578

The other category is comprised of energy related loans as well as loans originated under our Mission Related Investment authority.

Accrual commercial loan volume has increased by $4.7 million since 2011 year end. Growth was limited in 2012 as cash grain operations, in particular, experienced strong earnings. This led to reduced demand for both operating credit and term debt due to more cash available to borrowers. Dairy producers have been seeing stronger milk prices in the second half of the year which also reduced demand for operating and intermediate credit. There has also been a shift of equipment financing to the AgDirect trade credit financing program which has resulted in fewer equipment loans obtained directly through the association. In spite of the drought in 2012, many producers had strong earnings and there was a need for year end prepayment of operating expenses to reduce income tax liabilities. Higher commodity prices along with crop insurance helped offset lower yields for many producers.

Accrual mortgage loan volume has increased $257.8 million over 2011 year end indicating strong mortgage loan growth in 2012. This was due to successful loan promotion programs along with continued high demand for real estate, cropland, in particular. Many landowners who may have been thinking of selling real estate decided to move ahead with sales in 2012 out of concern that capital gains tax rates would increase in 2013. Strong commodity prices as well as low interest rates have encouraged buyers to move ahead with land purchases. The capital markets portfolio has also shown significant loan activity, especially in the fourth quarter of 2012.

Mortgage loan volume growth was partially offset by additional sales of participation interests in real estate loans under the asset pool program with AgriBank. In July 2012, we added an additional $150.2 million of loan assets to the pool which was originally established with AgriBank in 2008. Total participation interests in this pool were $462.6 million, $372.4 million, and $345.6 million at December 31 2012, 2011, and 2010, respectively.

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

Portfolio Distribution

We are chartered to serve certain counties in Wisconsin. Approximately 12.8% of our total loan portfolio was in Dane and Fond du Lac counties at December 31, 2012.

Our portfolio is concentrated in the dairy and crop segments that represented 32.3% and 31.7%, respectively, at December 31, 2012. Additional commodity concentration information is included in Note 3.

Our level of portfolio diversification has not changed materially over the last year and continues to be one of our portfolio strengths. Due mainly to our diversity in commodities and the varied operating cycles that those commodities experience, our volume levels do not show significant levels of seasonality.

Agricultural and Economic Conditions

Fall harvest conditions were favorable and resulted in a timely harvest. Conditions also allowed for some fall tillage work. Overall yields were negatively impacted by the drought; however, northern parts of our territory had more moisture during the growing season and had decent yields. Although yields were down due to the drought, some of the yield losses were offset by higher commodity prices and/or crop insurance payments. Most producers that had grain contracted were able to harvest enough crop to fill their contracts; however, they may not have been able to realize the full benefit of strong commodity prices depending on their contract prices.

Most livestock producers have been able to source adequate feed supplies. Many livestock producers that typically had excess corn to sell in the past will need most, if not all, of their raised production from 2012 and won't have excess grain to sell. Some units have done extra culling due to tighter feed supplies. Most commodity prices continue to remain at historically high levels as of early January 2013. Landmark Cooperative disclosed current cash prices for corn are approximately $7.07/bu and soybeans approximately $14.32/bu. This is down from the 2012 harvest prices of approximately $7.70/bu for corn and $15.50/bu for soybeans. Per the Chicago Board of Trade (CBOT), March corn futures are at $7.32/bu with March soybean futures at $14.96/bu. CBOT futures contracts for 2013 new crops show December corn at $5.52/bu and November soybeans at $12.75/bu.

Milk prices have climbed considerably over the past few months, especially during September, October, and November. This was primarily due to the impact of the drought as hot temperatures impacted milk production and higher feed costs have been forcing some producers to cull heavier resulting in a negative impact on the total milk supply. The United States Department of Agriculture disclosed the average class III milk price for the fourth quarter of 2012 was $20.17/cwt which compares to $18.62/cwt for the same quarter of 2011. Calendar year 2012 averaged $17.44/cwt which was down from the 2011 average of $18.37/cwt. CBOT 2013 futures currently average $18.10/cwt for the year. Milk prices do not include premiums. Opportunities currently exist to forward contract milk at a price similar to the 2011 average price which was a record high; however, it needs to be recognized that input costs have been climbing and margins may shrink in spite of higher milk prices.

Strong commodity prices along with favorable interest rates continue to keep demand for cropland high. Parts of our territory are showing land values climbing over $10,000 per acre. Historically low interest rates are expected to continue for another year or two. If commodity prices remain strong, demand for cropland will continue to drive up real estate values. Recreational land values appear to be stabilizing after softening the past three years. There is some evidence of demand for this type of property improving.

The overall economy continues to show some improvement; however, it has been at a slow pace. As the economy improves, there may be additional opportunities for non-farm income. Our territory experienced varying levels of drought conditions throughout the 2012 growing season. Other than one significant snowfall that provided good snow cover over most of the territory, there has been limited moisture during the 2012/2013 winter to-date. Subsoil moisture conditions are very low and without timely rains throughout the growing season, there is little subsoil moisture to draw on.

Analysis of Risk

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

As of December 31	**2012**	2011	2010
Loans:			
Nonaccrual	**$13,066**	$20,556	$34,465
Accruing restructured	**233**	--	114
Accruing loans 90 days or more past due	**7,299**	514	564
Total risk loans	**20,598**	21,070	35,143
Other property owned	**3,664**	5,270	255
Total risk assets	**$24,262**	$26,340	$35,398
Risk loans as a percentage of total loans	**0.7%**	0.8%	1.4%
Total delinquencies as a percentage of total loans	**0.8%**	0.7%	1.1%

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

The decrease in nonaccrual loans was due to loan payments received throughout the year ended December 31, 2012. Nonaccrual loans remained at an acceptable level at December 31, 2012, and represented 0.5% of our total portfolio. At December 31, 2012, 45.5% of our nonaccrual loans were current.

The increase in accruing loans 90 days or more past due was primarily due to delinquencies from a production and intermediate term loan and three small real estate loans. Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The decline in other property owned was related to write-downs of properties as well as sales during the year ended December 31, 2012.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2012. Adversely classified loans decreased to 2.4% of the portfolio at December 31, 2012, from 3.7% of the portfolio at December 31, 2011. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At December 31, 2012, $92.5 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the Allowance for Loan Losses

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

The following table presents allowance coverage, charge-off, and adverse asset information:

As of December 31	**2012**	2011	2010
Allowance as a percentage of:			
Loans	**0.2%**	0.3%	0.5%
Nonaccrual loans	**34.7%**	32.2%	38.0%
Total risk loans	**22.0%**	31.4%	37.2%
Net charge-offs as a percentage of average loans	**--**	--	0.1%
Adverse assets to risk funds	**14.0%**	22.0%	26.9%

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

Additional loan information is included in Notes 3, 11, 12, 13, and 14.

Equity Investment

In addition to loans, we hold an equity investment in a venture capital equity fund that focuses on the needs of rural start-up companies. We do not have a controlling interest in the activities of the fund and, therefore, the investment is valued at cost. Our investment was $3.2 million, $1.9 million, and $1.2 million at December 31, 2012, 2011, and 2010, respectively. Our remaining commitment to the fund at December 31, 2012 was $1.8 million over the next six years.

Results of Operations

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

For the year ended December 31	**2012**	2011	2010
Net income	**$81,595**	$79,883	$74,761
Return on average assets	**2.9%**	2.9%	3.1%
Return on average members' equity	**14.0%**	15.6%	17.0%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets as discussed in the Loan Portfolio section, and
- changes in members' equity as discussed in the Capital Adequacy section.

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

	Year ended December 31			Increase (decrease) in net income	
	2012	2011	2010	**2012 vs 2011**	2011 vs. 2010
Net interest income	**$85,711**	$84,523	$74,547	**$1,188**	$9,976
(Reversal of) provision for loan losses	**(2,120)**	(5,401)	(997)	**(3,281)**	4,404
Patronage income	**20,370**	17,061	18,584	**3,309**	(1,523)
Other income, net	**15,540**	14,206	19,037	**1,334**	(4,831)
Operating expenses	**42,093**	38,687	36,155	**(3,406)**	(2,532)
Provision for income taxes	**53**	2,621	2,249	**2,568**	(372)
Net income	**$81,595**	$79,883	$74,761	**$1,712**	$5,122

Net Interest Income

Net interest income was $85.7 million for the year ended December 31, 2012. The following table quantifies changes in net interest income (in thousands):

	2012 vs. 2011	2011 vs. 2010
Changes in volume	**$2,975**	$9,126
Changes in rates	**(2,830)**	1,353
Changes in nonaccrual income and other	**1,043**	(503)
Net change	**$1,188**	$9,976

Net interest income included income on nonaccrual loans that totaled $1.2 million, $0.2 million, and $0.7 million in 2012, 2011, and 2010, respectively. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 3.2% in each of the years 2012, 2011, and 2010, respectively. We expect margins to compress in the future as interest rates rise and competition increases.

(Reversal of) Provision for Loan Losses

The change in the provision for loan losses was driven by a large reversal during the year ended December 31, 2011 as compared to the current year. At that time, the reversal was driven by an enhancement to our methodology for determining loss rates which provides for a more granular calculation and recognizes strong collateralization within the portfolio and a decrease in industry specific general allowances. Overall credit quality of our portfolio continued to improve in 2012 and resulted in a reversal of provision for loan losses during the year ended December 31, 2012. Improved collateral values from third party appraisals also contributed to the reversal of provision for loan losses during the year ended December 31, 2012. Refer to Note 3 for additional discussion.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of $7.1 million, $6.9 million, and $8.3 million in 2012, 2011, and 2010, respectively. The change in patronage income was primarily due to the change in patronage rates. The patronage rates paid by AgriBank were 32 basis points, 31 basis points, and 42 basis points in 2012, 2011, and 2010, respectively.

Since 2008 we have participated in the asset pool program with AgriBank in which we sell participation interests in certain real estate loans. As part of this program we received patronage income in an amount that approximated the net earnings of loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of $12.7 million, $10.2 million, and $10.3 million in 2012, 2011, and 2010, respectively. The patronage recorded included $452 thousand and $393 thousand of our share of the distribution from the Allocated Insurance Reserve Accounts (AIRA) related to the asset pool program in 2012 and 2010, respectively. These reserve accounts were established in previous years by the Insurance Corporation when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required 2% of insured debt. No such distribution was received in 2011.

We also received a partnership distribution resulting from our participation in the AgDirect trade credit financing program. The program is facilitated by another AgriBank District association through a limited liability partnership (AgDirect, LLP), in which we are a partial owner. AgriBank purchases a 100% participation interest in the program loans from AgDirect, LLP. We received patronage income in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees. Patronage is declared solely at the discretion of the AgriBank Board of Directors and is paid to AgDirect, LLP, which in turn distributes it to the participating associations. In 2012, we received patronage income of $418 thousand. No patronage was received in 2011 or 2010.

Other Income

The change in other income was primarily due to the increase in AIRA distribution as a result of our share of distributions from AIRA. We received $2.7 million during 2012 and $2.4 million during 2010. There was no distribution in 2011. The AIRA distribution was partially offset by other property owned write-downs of $950 thousand during the year ended December 31, 2012. These write-downs were primarily related to one asset and were included in "Miscellaneous (loss) income, net" on the Consolidated Statements of Income.

Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Salaries and employee benefits	**$26,883**	$23,799	$22,322
Purchased and vendor services	**2,488**	2,049	2,406
Communications	**1,077**	973	845
Occupancy and equipment	**3,499**	3,300	3,066
Advertising and promotion	**2,343**	2,215	1,952
Examination	**879**	825	713
FCS insurance	**1,121**	1,359	1,044
Other	**3,803**	4,167	3,807
Total operating expenses	**$42,093**	$38,687	$36,155
Operating rate	**1.6%**	1.5%	1.5%

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

Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2012, 2011, and 2010. Refer to Note 9 for additional discussion.

Funding and Liquidity

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2012, our average balance was $2.2 billion with an average interest rate of 1.3%. Our average balance during 2011 was $2.2 billion with an average interest rate of 1.5% and during 2010 our average balance was $2.0 billion with an average interest rate of 1.7%. Our other source of lendable funds is from unallocated surplus. 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.

Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2012, we had $593.2 million available under our line of credit. We generally apply excess cash to this line of credit.

Beginning in 2012, to mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell certain loans identified in the agreement to Farmer Mac. This agreement remains in place until receipt of full payment. However, none of our loans were in this program as of December 31, 2012. No fees have been paid to Farmer Mac.

Capital Adequacy

Total members' equity increased $67.7 million during 2012 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by a special patronage distribution during the year as well as typical patronage distribution accruals.

Members' equity position information follows (dollars in thousands):

As of December 31	**2012**	2011	2010
Members' equity	**$616,148**	$548,432	$477,357
Surplus as a percentage of members' equity	**98.7%**	98.6%	98.5%
Permanent capital ratio	**15.9%**	15.0%	13.9%
Total surplus ratio	**15.6%**	14.8%	13.7%
Core surplus ratio	**15.6%**	14.8%	13.7%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future. In response to adverse weather conditions and the impact on Wisconsin farm families, a special, one-time mid-year patronage distribution was approved by the Board of Directors. This patronage distribution of $5.2 million was paid in cash in October 2012.

At December 31, 2012, our permanent capital, total surplus, and core surplus ratios exceeded the regulatory minimum requirements. Additional discussion of these regulatory ratios is included in Note 8.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2012, our optimum permanent capital range was 11%-14%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

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

ProPartners Financial

We have an alliance with nine other Farm Credit association partners to provide producer financing for agribusiness companies under the trade name, ProPartners Financial (ProPartners). In September 2012, Northwest Farm Credit Services (Northwest) joined the alliance resulting in expanded agribusiness client programs in which ProPartners loans can be originated. The addition of Northwest increased our financial strength, processing capacity, technology, expertise, and geographic diversity to support our clients' growth. ProPartners is directed by representatives from participating associations and has employees in California, Illinois, Indiana, Kansas, Minnesota, Missouri, North Dakota, Tennessee, and Washington. The income, expense, and loss sharing arrangements are based on each association's participation interest in ProPartners' volume. Each association's allocation is established according to a prescribed formula which includes risk funds of the associations. We had $68.4 million, $60.8 million, and $63.0 million of ProPartners volume at December 31, 2012, 2011, and 2010, respectively. We also had $70.7 million of available commitment on ProPartners loans at December 31, 2012.

Farm Credit Leasing

We have entered into an agreement with Farm Credit Leasing to provide lease financing services to our members. Farm Credit Leasing originates and services the leases, and then we purchase a participation interest. This arrangement provides our members with a much broader selection of product offerings and enhanced lease expertise.

AgDirect

We participate in the AgDirect trade credit financing program which includes origination and re-financing of agricultural equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are partial owners.

AgriSolutions

We have an alliance with AgriSolutions, a farm software and consulting company, to provide farm records, income tax planning and preparation services, farm business consulting, and producer education seminars.

Farm Cash Management

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

Agriculture and Rural Community Bond Program

We participate in the Agriculture and Rural Community Bond Program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had $44.0 million, $43.9 million, and $39.8 million of volume under this program at December 31, 2012, 2011, and 2010, respectively.

Relationship with AgriBank

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship.

Cost of funds under the General Financing Agreement includes:

- 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.

The marginal cost of debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from market interest rate risk.

In the periods presented, we were not subject to the risk premium component.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2012, we were required to maintain a stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. However, AgriBank currently has not communicated a plan to increase the required investment.

In addition, we are required to hold AgriBank stock equal to 8.0% of the quarter end asset pool program participation loan balance.

At December 31, 2012, $58.0 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $36.0 million consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Although it is not a direct association investment in AgriBank, the AgDirect, LLP that facilitates the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program participation outstanding loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter. We, in turn, are required to own the same amount of stock in AgDirect, LLP.

Patronage

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

- patronage on our note payable with AgriBank,
- patronage based on the balance and net earnings of the pool of loans sold to AgriBank, and
- although not directly received from AgriBank, we do receive a partnership distribution resulting from our participation in the AgDirect trade credit financing program in an amount that approximated our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees. Patronage is paid from AgriBank to AgDirect, LLP, which in turn distributes it to the participating associations.

Patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain:

- financial and retail systems, support, and reporting,
- technology services,
- insurance services, and
- internal audit services.

The total cost of services we purchased from AgriBank was $996 thousand, $998 thousand, and $985 thousand in 2012, 2011, and 2010, respectively. Beginning in January 2012, benefit, human resource information systems, payroll, and workforce management services were purchased from Farm Credit Foundations (Foundations), which resulted in a decrease in total cost of services purchased from AgriBank. This decrease was mostly offset by increased purchased services in various other areas from AgriBank.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank and the combined AgriBank and Affiliated Associations' financial reports contact us at 1430 North Ridge Drive, Prairie du Sac, Wisconsin 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 to agribankmn@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

Federal Agricultural Mortgage Corporation

Beginning in 2012, to mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. In the event of default, subject to certain conditions, we have the right to sell certain loans identified in the agreement to Farmer Mac. This agreement remains in place until receipt of full payment. However, none of our loans were in this program as of December 31, 2012. No fees have been paid to Farmer Mac.

BGM Technology Collaboration

We participate in the BGM Technology Collaboration (BGM) with certain other AgriBank District associations to facilitate the development and maintenance of certain retail technology systems essential to providing credit and other services to our members/borrowers. BGM operations are governed by representatives of each participating association. The expenses of BGM are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

Investment in Other Farm Credit Institutions

In April 2010, we entered into an agreement to participate in the AgDirect trade credit financing program. A limited liability partnership was established in the second quarter of 2011 to facilitate this program. Our investment in AgDirect, LLP, was $8.0 million and $6.4 million at December 31, 2012 and 2011, respectively. We had no investment at December 31, 2010.

In addition, we have a relationship with Foundations which involves purchasing benefit, human resource information systems, payroll, and workforce management services. Foundations was operated as part of AgriBank prior to January 1, 2012 when it formed a System service corporation and thus is no longer operated as part of AgriBank. As of December 31, 2012, our investment in Foundations was $35 thousand. The total cost of services we purchased from Foundations was $140 thousand in 2012.

REPORT OF MANAGEMENT

Badgerland Financial, ACA

We prepare the consolidated financial statements of Badgerland Financial, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that on the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report and it has been prepared in accordance with all applicable statutory or regulatory requirements and 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

March 7, 2013

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Badgerland Financial, ACA

The Badgerland Financial, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2012. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2012, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2012.

Diane M. Cole

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory Rufsvold

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

March 7, 2013

REPORT OF AUDIT COMMITTEE

Badgerland Financial, ACA

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of Badgerland Financial, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2012, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2012.

Gregory Pollesch
Chairperson of the Audit Committee
Badgerland Financial, ACA

Members of the audit committee include:
Gary Boyke
Dave Kuhle
Jerome Laufenberg
Lori Meinholz
Gregory Pollesch
Mike Winker

March 7, 2013

Independent Auditor's Report

To the Board of Directors and Members of Badgerland Financial, ACA,

We have audited the accompanying consolidated financial statements of Badgerland Financial, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2012, 2011 and 2010, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Badgerland Financial, ACA and its subsidiaries at December 31, 2012, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 7, 2013

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

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA

(in thousands)

As of December 31	**2012**	2011	2010
ASSETS			
Loans	**$2,855,906**	$2,600,884	$2,585,578
Allowance for loan losses	**4,540**	6,621	13,081
Net loans	**2,851,366**	2,594,263	2,572,497
Investment in AgriBank, FCB	**94,045**	83,317	79,930
Accrued interest receivable	**13,925**	14,256	13,581
Premises and equipment, net	**12,609**	8,586	6,874
Other property owned	**3,664**	5,270	255
Equity investment	**3,235**	1,885	1,235
Other assets	**26,313**	26,269	21,823
Total assets	**$3,005,157**	$2,733,846	$2,696,195
LIABILITIES			
Note payable to AgriBank, FCB	**$2,357,428**	$2,144,163	$2,173,066
Accrued interest payable	**7,127**	8,160	8,202
Deferred tax liabilities, net	**2,421**	2,477	2,033
Patronage distribution payable	**9,000**	9,000	10,000
Other liabilities	**13,033**	21,614	25,537
Total liabilities	**2,389,009**	2,185,414	2,218,838
Contingencies and commitments	**--**	--	--
MEMBERS' EQUITY			
Capital stock and participation certificates	**7,852**	7,548	7,362
Unallocated surplus	**608,296**	540,884	469,995
Total members' equity	**616,148**	548,432	477,357
Total liabilities and members' equity	**$3,005,157**	$2,733,846	$2,696,195

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Interest income	**$115,464**	$117,729	$107,808
Interest expense	**29,753**	33,206	33,261
Net interest income	**85,711**	84,523	74,547
(Reversal of) provision for loan losses	**(2,120)**	(5,401)	(997)
Net interest income after (reversal of) provision for loan losses	**87,831**	89,924	75,544
Other income			
Patronage income	**20,370**	17,061	18,584
Financially related services income	**10,727**	11,009	13,327
Fee income	**2,724**	2,930	2,467
Allocated insurance reserve accounts distribution	**2,746**	--	2,389
Miscellaneous (loss) income, net	**(657)**	267	854
Total other income	**35,910**	31,267	37,621
Operating expenses			
Salaries and employee benefits	**26,883**	23,799	22,322
Other operating expenses	**15,210**	14,888	13,833
Total operating expenses	**42,093**	38,687	36,155
Income before income taxes	**81,648**	82,504	77,010
Provision for income taxes	**53**	2,621	2,249
Net income	**$81,595**	$79,883	$74,761

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Badgerland Financial, ACA

(in thousands)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2009	$7,011	$405,192	$412,203
Net income	--	74,761	74,761
Unallocated surplus designated for patronage distributions	--	(9,958)	(9,958)
Capital stock/participation certificates issued	883	--	883
Capital stock/participation certificates retired	(532)	--	(532)
Balance at December 31, 2010	7,362	469,995	477,357
Net income	--	79,883	79,883
Unallocated surplus designated for patronage distributions	--	(8,994)	(8,994)
Capital stock/participation certificates issued	782	--	782
Capital stock/participation certificates retired	(596)	--	(596)
Balance at December 31, 2011	**7,548**	**540,884**	**548,432**
Net income	**--**	**81,595**	**81,595**
Current year special patronage distribution	**--**	**(5,194)**	**(5,194)**
Unallocated surplus designated for patronage distributions	**--**	**(8,989)**	**(8,989)**
Capital stock/participation certificates issued	**962**	**--**	**962**
Capital stock/participation certificates retired	**(658)**	**--**	**(658)**
Balance at December 31, 2012	**$7,852**	**$608,296**	**$616,148**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Badgerland Financial, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Cash flows from operating activities			
Net income	**$81,595**	$79,883	$74,761
Depreciation on premises and equipment	**1,793**	1,648	1,591
Gain on sale of premises and equipment	**(120)**	(136)	(121)
Depreciation on assets held for lease	**--**	--	767
Gain on disposal of assets held for lease	**--**	--	(11)
Amortization of premiums on loans	**72**	67	7
(Reversal of) provision for loan losses	**(2,120)**	(5,401)	(997)
Stock patronage received from AgriBank, FCB	**(3,631)**	(4,377)	(2,986)
Loss (gain) on other property owned	**951**	26	(124)
Changes in operating assets and liabilities:			
Accrued interest receivable	**(560)**	(972)	(838)
Other assets	**1,589**	1,922	(5,301)
Accrued interest payable	**(1,033)**	(42)	(271)
Other liabilities	**(8,637)**	(3,479)	1,025
Net cash provided by operating activities	**69,899**	69,139	67,502
Cash flows from investing activities			
Increase in loans, net	**(253,686)**	(20,852)	(324,970)
(Purchases) redemptions of investment in AgriBank, FCB, net	**(7,097)**	990	(311)
Purchases of investment in other Farm Credit Institutions, net	**(1,633)**	(6,368)	--
Increase in equity investment, net	**(1,350)**	(650)	(732)
Sales of assets held for lease, net	**--**	--	9,424
Proceeds from sales of other property owned	**655**	--	370
Purchases of premises and equipment, net	**(5,696)**	(3,224)	(1,391)
Net cash used in investing activities	**(268,807)**	(30,104)	(317,610)
Cash flows from financing activities			
Increase (decrease) in note payable to AgriBank, FCB, net	**213,265**	(28,903)	255,986
Patronage distributions	**(14,183)**	(9,994)	(5,758)
Capital stock and participation certificates retired, net	**(174)**	(138)	(120)
Net cash provided by (used in) financing activities	**198,908**	(39,035)	250,108
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$946**	$779	$865
Stock applied against loan principal	**468**	455	394
Interest transferred to loans	**891**	297	1,159
Loans transferred to other property owned	**--**	5,041	255
Patronage distributions payable to members	**9,000**	9,000	10,000
Financed sales of other property owned	**--**	--	1,060
Supplemental information			
Interest paid	**$30,786**	$33,248	$33,532
Taxes (received) paid	**(729)**	3,003	4,153

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Badgerland Financial, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 82 associations. AgriBank, FCB (AgriBank), a System bank and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At December 31, 2012, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used:

- to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to ensure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound.

The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to the associations each year based on similar factors.

Association

Badgerland Financial, ACA and its subsidiaries, Badgerland Financial, FLCA and Badgerland Financial**,** PCA (the subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Adams, Buffalo, Calumet, Columbia, Crawford, Dane, Dodge, Fond du Lac, Grant, Green, Green Lake, Iowa, Jackson, Jefferson, Juneau, Kenosha, LaCrosse, Lafayette, Marquette, Milwaukee, Monroe, Ozaukee, Racine, Richland, Rock, Sauk, Sheboygan, Trempealeau, Vernon, Walworth, Washington, Waukesha, and Winnebago in the state of Wisconsin.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We, along with certain other System institutions, own AgDirect, LLP, which facilitates a trade credit financing program for its owners.

We, along with certain other System institutions, own Farm Credit Foundations (Foundations) which provides benefit, human resource information systems, payroll, and workforce management services.

We offer various risk management services, including credit life, term life, credit disability, livestock gross margin, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow. We also offer farm records, fee appraisals, income tax planning and preparation services, retirement and succession planning, and producer education services to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

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

Principles of Consolidation

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

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Material fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. Other loan fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses are not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected,
- the borrower has demonstrated payment performance, and
- the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as 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.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as:

- loan loss history,
- probability of default,
- severity of loss given default,
- portfolio quality, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- accruing restructured loans, and
- accruing loans 90 days or more past due.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss given default. The combination of estimated default probability and loss given default is the primary basis for recognition and measurement of loan collectability of these pools of loans.

Changes in the allowance for loan losses consist of provision activity, recorded in “(Reversal of) provision for loan losses” on the Consolidated Statements of Income, recoveries, and charge-offs.

Investment in AgriBank: Accounting for our stock investment in AgriBank is on a cost plus allocated equities basis.

Equity Investment: The carrying amount of equity investments for which we are a limited partner and hold a non-controlling interest in venture capital funds is at cost. The investment is assessed for impairment. If impairment exists, losses are included in “Miscellaneous (loss) income, net” on the Consolidated Statements of Income in the year of impairment. Income on the investment is limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Miscellaneous (loss) income, net” on the Consolidated Statements of Income. Depreciation and maintenance and repairs expenses are included in “Other operating expenses” on the Consolidated Statements of Income and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in “Miscellaneous (loss) income, net” on the Consolidated Statements of Income.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which Association employees participate.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. Between October 1, 2001 and December 31, 2006, all new benefits-eligible employees are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Statements of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly,
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates, and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect our own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

In December 2011, the FASB issued guidance entitled, "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." In January 2013, the FASB issued clarifying guidance surrounding the scope of financial instruments covered under this guidance. The offsetting disclosures are only applied to derivatives, repurchase agreements and securities lending transactions. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to in scope financial instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retroactively for all comparative periods and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations.

In September 2011, the FASB issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans in which the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations, but resulted in additional disclosures in Note 10.

In June 2011, the FASB issued guidance entitled, "Presentation of Comprehensive Income." The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement — referred to as the Statement of Comprehensive Income — or in two separate, but consecutive, statements. The guidance is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of the guidance did not have any impact on our consolidated financial condition or consolidated results of operations. If, in future periods, we have other comprehensive income, expanded financial statement presentation will be required.

In May 2011, FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)." The guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments include the following:

- Application of the highest and best use valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use.

The amendments are to be applied prospectively. For non-public entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations and did not result in additional disclosures at this time.

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

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

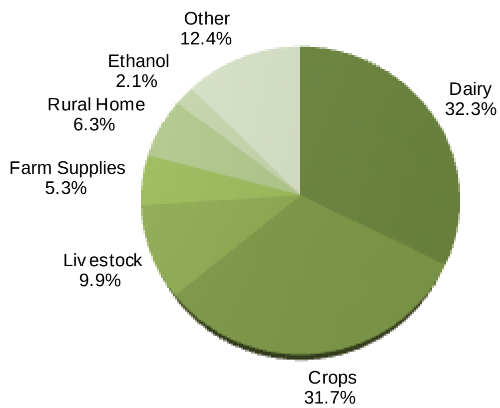
	2012		2011		2010	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$1,602,004**	**56.1%**	$1,410,135	54.2%	$1,245,251	48.1%
Production and intermediate term	**837,245**	**29.3%**	846,997	32.6%	912,204	35.3%
Agribusiness	**253,984**	**8.9%**	234,227	9.0%	332,286	12.9%
Communication	**70,625**	**2.5%**	38,446	1.5%	25,928	1.0%
Rural residential real estate	**16,397**	**0.6%**	16,508	0.6%	22,391	0.9%
Finance leases	**--**	**--**	--	--	4,883	0.2%
Other	**75,651**	**2.6%**	54,571	2.1%	42,635	1.6%
Total	**$2,855,906**	**100.0%**	$2,600,884	100.0%	$2,585,578	100.0%

The other category is comprised of energy related loans as well as loans originated under our Mission Related Investment authority.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities, and within our chartered territory. At December 31, 2012, volume plus commitments to our ten largest borrowers totaled an amount equal to 6.0% of total loans and commitments.

Our agricultural commodity concentrations at December 31, 2012, were as follows:



The commodity concentrations have not changed materially from prior years.

We are chartered to operate in certain counties in Wisconsin. Approximately 12.8% of our total loan portfolio was in Dane and Fond du Lac counties at December 31, 2012.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with FCA Regulations or General Financing Agreement (GFA) limitations. The following table presents information regarding participations purchased and sold (in thousands):

	AgriBank, FCB		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2012	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**($469,397)**	**$126,406**	**($13,950)**	**$128,465**	**$ --**	**$254,871**	**($483,347)**
Production and intermediate term	**--**	**(9,044)**	**102,492**	**(20,533)**	**40,586**	**--**	**143,078**	**(29,577)**
Agribusiness	**--**	**(12,007)**	**214,896**	**--**	**14,926**	**--**	**229,822**	**(12,007)**
Communication	**--**	**--**	**70,625**	**--**	**--**	**--**	**70,625**	**--**
Rural residential real estate	**--**	**(498)**	**219**	**--**	**--**	**--**	**219**	**(498)**
Other	**--**	**--**	**12,609**	**--**	**--**	**--**	**12,609**	**--**
Total	**$ --**	**($490,946)**	**$527,247**	**($34,483)**	**$183,977**	**$ --**	**$711,224**	**($525,429)**
As of December 31, 2011								
Real estate mortgage	$ --	($373,062)	$86,273	($16,148)	$102,403	$ --	$188,676	($389,210)
Production and intermediate term	--	(11,212)	102,966	(7,933)	27,724	--	130,690	(19,145)
Agribusiness	--	(8,776)	186,385	(12,217)	13,364	--	199,749	(20,993)
Communication	--	--	38,446	--	--	--	38,446	--
Rural residential real estate	--	(526)	457	--	--	--	457	(526)
Other	--	--	5,710	--	--	--	5,710	--
Total	$ --	($393,576)	$420,237	($36,298)	$143,491	$ --	$563,728	($429,874)

Information in the preceding chart excludes loans entered into under our Mission Related Investment authority and leasing authority.

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Loan 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 classified under the FCA Uniform Classification System by loan type (dollars in thousands):

	Acceptable		OAEM		Substandard/ Doubtful/Loss		Total	
As of December 31, 2012	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$1,537,323**	**95.5%**	**$32,028**	**2.0%**	**$40,320**	**2.5%**	**$1,609,671**	**100.0%**
Production and intermediate term	**810,631**	**96.2%**	**13,427**	**1.6%**	**18,662**	**2.2%**	**842,720**	**100.0%**
Agribusiness	**237,557**	**93.4%**	**9,116**	**3.6%**	**7,633**	**3.0%**	**254,306**	**100.0%**
Communication	**70,701**	**100.0%**	**--**	**--**	**--**	**--**	**70,701**	**100.0%**
Rural residential real estate	**15,905**	**96.8%**	**95**	**0.6%**	**435**	**2.6%**	**16,435**	**100.0%**
Other	**70,937**	**93.3%**	**3,122**	**4.1%**	**1,939**	**2.6%**	**75,998**	**100.0%**
Total loan portfolio	**$2,743,054**	**95.6%**	**$57,788**	**2.0%**	**$68,989**	**2.4%**	**$2,869,831**	**100.0%**
As of December 31, 2011								
Real estate mortgage	$1,332,947	94.1%	$31,492	2.2%	$52,841	3.7%	$1,417,280	100.0%
Production and intermediate term	810,451	94.9%	11,662	1.4%	31,254	3.7%	853,367	100.0%
Agribusiness	210,780	89.9%	13,190	5.6%	10,573	4.5%	234,543	100.0%
Communication	38,525	100.0%	--	--	--	--	38,525	100.0%
Rural residential real estate	15,989	96.6%	96	0.6%	465	2.8%	16,550	100.0%
Other	49,693	90.5%	3,340	6.1%	1,842	3.4%	54,875	100.0%
Total loan portfolio	$2,458,385	94.0%	$59,780	2.3%	$96,975	3.7%	$2,615,140	100.0%

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

As of December 31, 2012	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
Real estate mortgage	**$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**	**--**
Communication	**--**	**--**	**--**	**70,701**	**70,701**	**--**
Rural residential real estate	**273**	**60**	**333**	**16,102**	**16,435**	**--**
Other	**--**	**1,826**	**1,826**	**74,172**	**75,998**	**474**
Total	**$13,602**	**$13,229**	**$26,831**	**$2,843,000**	**$2,869,831**	**$7,299**
As of December 31, 2011						
Real estate mortgage	$3,904	$5,336	$9,240	$1,408,040	$1,417,280	$ --
Production and intermediate term	4,992	2,381	7,373	845,994	853,367	514
Agribusiness	202	49	251	234,292	234,543	--
Communication	14	--	14	38,511	38,525	--
Rural residential real estate	388	--	388	16,162	16,550	--
Other	494	1,368	1,862	53,013	54,875	--
Total	$9,994	$9,134	$19,128	$2,596,012	$2,615,140	$514

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan information (in thousands).

As of December 31	**2012**	2011	2010
Nonaccrual loans:			
Current	**$5,947**	$11,258	$16,980
Past due	**7,119**	9,298	17,485
Total nonaccrual loans	**13,066**	20,556	34,465
Accruing restructured loans	**233**	--	114
Accruing loans 90 days or more past due	**7,299**	514	564
Total risk loans	**$20,598**	$21,070	$35,143
Volume with specific reserves	**$2,716**	$5,493	$11,222
Volume without specific reserves	**17,882**	15,577	23,921
Total risk loans	**$20,598**	$21,070	$35,143
Total specific reserves	**$1,876**	$3,618	$5,648

For the year ended December 31	**2012**	2011	2010
Income on accrual risk loans	**$138**	$69	$116
Income on nonaccrual loans	**1,249**	206	659
Total income on risk loans	**$1,387**	$275	$775
Average recorded investment	**$18,443**	$30,449	$34,279

Nonaccrual loans by loan type were as follows (in thousands):

As of December 31	**2012**	2011	2010
Nonaccrual loans:			
Real estate mortgage	**$7,141**	$9,445	$14,333
Production and intermediate term	**1,621**	5,590	8,233
Agribusiness	**2,520**	3,709	10,047
Rural residential real estate	**435**	465	429
Other	**1,349**	1,347	1,423
Total nonaccrual loans	**$13,066**	$20,556	$34,465

The decrease in nonaccrual loans was due to loan payments received throughout the year ended December 31, 2012.

Accruing loans 90 days or more past due and related accrued interest by loan type were as follows (in thousands):

As of December 31	**2012**	2011	2010
Accruing loans 90 days or more past due:			
Real estate mortgage	**$1,549**	$ --	$18
Production and intermediate term	**5,276**	514	542
Rural residential real estate	**--**	--	4
Other	**474**	--	--
Total accruing loans 90 days or more past due	**$7,299**	$514	$564

The increase in accruing loans 90 days or more past due was primarily due to delinquencies from a production and intermediate term loan and three small real estate loans. 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.

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2012			**For the period ended December 31, 2012**	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	**$961**	**$1,000**	**$900**	**$962**	**$ --**
Production and intermediate term	**406**	**474**	**278**	**296**	**--**
Agribusiness	**--**	**--**	**--**	**2,572**	**--**
Rural residential real estate	**--**	**--**	**--**	**--**	**--**
Other	**1,349**	**1,429**	**698**	**1,083**	**--**
Total	**$2,716**	**$2,903**	**$1,876**	**$4,913**	**$ --**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	**$7,729**	**$8,557**	**$ --**	**$7,741**	**$580**
Production and intermediate term	**6,724**	**7,511**	**--**	**4,901**	**779**
Agribusiness	**2,520**	**4,019**	**--**	**59**	**18**
Rural residential real estate	**435**	**510**	**--**	**449**	**--**
Other	**474**	**474**	**--**	**380**	**10**
Total	**$17,882**	**$21,071**	**$ --**	**$13,530**	**$1,387**
Total impaired loans:					
Real estate mortgage	**$8,690**	**$9,557**	**$900**	**$8,703**	**$580**
Production and intermediate term	**7,130**	**7,985**	**278**	**5,197**	**779**
Agribusiness	**2,520**	**4,019**	**--**	**2,631**	**18**
Rural residential real estate	**435**	**510**	**--**	**449**	**--**
Other	**1,823**	**1,903**	**698**	**1,463**	**10**
Total	**$20,598**	**$23,974**	**$1,876**	**$18,443**	**$1,387**

	As of December 31, 2011			For the period ended December 31, 2011	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$78	$77	$23	$92	$ --
Production and intermediate term	1,006	1,063	401	2,732	--
Agribusiness	3,574	4,100	2,694	6,651	--
Rural residential real estate	--	--	--	--	--
Other	835	888	500	858	--
Total	$5,493	$6,128	$3,618	$10,333	$ --
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$9,367	$10,050	$ --	$13,103	$64
Production and intermediate term	5,098	8,502	--	5,491	109
Agribusiness	135	606	--	559	93
Rural residential real estate	465	521	--	439	--
Other	512	532	--	524	9
Total	$15,577	$20,211	$ --	$20,116	$275
Total impaired loans:					
Real estate mortgage	$9,445	$10,127	$23	$13,195	$64
Production and intermediate term	6,104	9,565	401	8,223	109
Agribusiness	3,709	4,706	2,694	7,210	93
Rural residential real estate	465	521	--	439	--
Other	1,347	1,420	500	1,382	9
Total	$21,070	$26,339	$3,618	$30,449	$275

[1]The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment.

[2]Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2012.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings, also known as formally restructured. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses.

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

	2012		2011	
	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	**782**	**685**	251	251
Total	**$987**	**$890**	$251	$251

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

We had troubled debt restructurings of $100 thousand and $113 thousand that defaulted during the years ended December 31, 2012 and 2011 in which the modifications were within 12 months of the beginning of the respective reporting period. These restructurings with a payment default occurred in the production and intermediate term loan category.

Troubled debt restructurings outstanding at December 31, 2012 totaled $861 thousand, of which $628 thousand were in nonaccrual status compared to $301 thousand at December 31, 2011, of which all were in nonaccrual status. There were no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at December 31, 2012.

Allowance for Loan Losses

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

For the year ended December 31	**2012**	2011	2010
Balance at beginning of year	**$6,621**	$13,081	$17,357
Reversal of loan losses	**(2,120)**	(5,401)	(997)
Loan recoveries	**266**	1,427	1,452
Loan charge-offs	**(227)**	(2,486)	(4,731)
Balance at end of year	**$4,540**	$6,621	$13,081

The decrease in allowance for loan losses in 2011 was related to improved collateralization within the portfolio and a decrease in industry specific general allowances as a result of improvements in the economic outlook in the dairy and biofuels segments of our portfolio during 2011. Overall credit quality of our portfolio continued to improve in 2012 and resulted in a reversal of provision for loan losses during the year ended December 31, 2012. Improved collateral values from third party appraisals also contributed to the reversal of provision for loan losses during the year ended December 31, 2012.

A summary of changes in the allowance for loan losses and period end recorded investments in loans by loan type follows (in thousands):

	Real estate mortgage	Production and intermediate term	Agribusiness	Communication	Rural residential real estate	Other	Total
Allowance for loan losses:							
Balance at December 31, 2011	**$996**	**$1,876**	**$3,146**	**$9**	**$6**	**$588**	**$6,621**
Provision for (reversal of) loan losses	**548**	**(191)**	**(2,707)**	**55**	**5**	**170**	**(2,120)**
Loan recoveries	**101**	**150**	**15**	**--**	**--**	**--**	**266**
Loan charge-offs	**(57)**	**(165)**	**(5)**	**--**	**--**	**--**	**(227)**
Balance at December 31, 2012	**$1,588**	**$1,670**	**$449**	**$64**	**$11**	**$758**	**$4,540**
Ending balance: individually evaluated for impairment	**$900**	**$278**	**$ --**	**$ --**	**$ --**	**$698**	**$1,876**
Ending balance: collectively evaluated for impairment	**$688**	**$1,392**	**$449**	**$64**	**$11**	**$60**	**$2,664**
Recorded investments in loans outstanding:							
Ending balance at December 31, 2012	**$1,609,671**	**$842,720**	**$254,306**	**$70,701**	**$16,435**	**$75,998**	**$2,869,831**
Ending balance: individually evaluated for impairment	**$8,690**	**$7,130**	**$2,520**	**$ --**	**$435**	**$1,823**	**$20,598**
Ending balance: collectively evaluated for impairment	**$1,600,981**	**$835,590**	**$251,786**	**$70,701**	**$16,000**	**$74,175**	**$2,849,233**
Allowance for loan losses:							
Balance at December 31, 2010	$97	$8,352	$4,628	$ --	$1	$3	$13,081
Provision for (reversal of) loan losses	1,096	(7,178)	82	9	5	585	(5,401)
Loan recoveries	54	1,122	251	--	--	--	1,427
Loan charge-offs	(251)	(420)	(1,815)	--	--	--	(2,486)
Balance at December 31, 2011	$996	$1,876	$3,146	$9	$6	$588	$6,621
Ending balance: individually evaluated for impairment	$23	$401	$2,694	$ --	$ --	$500	$3,618
Ending balance: collectively evaluated for impairment	$973	$1,475	$452	$9	$6	$88	$3,003
Recorded investments in loans outstanding:							
Ending balance at December 31, 2011	$1,417,280	$853,367	$234,543	$38,525	$16,550	$54,875	$2,615,140
Ending balance: individually evaluated for impairment	$9,445	$6,104	$3,709	$ --	$465	$1,347	$21,070
Ending balance: collectively evaluated for impairment	$1,407,835	$847,263	$230,834	$38,525	$16,085	$53,528	$2,594,070

NOTE 4: INVESTMENT IN AGRIBANK

At December 31, 2012, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

At December 31, 2012, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the asset pool program.

The balance of our investment in AgriBank, all required stock, was $94.0 million, $83.3 million, and $79.9 million at December 31, 2012, 2011, and 2010, respectively.

NOTE 5: EQUITY INVESTMENT

We hold a non-controlling equity investment in a venture capital equity fund of $3.2 million, $1.9 million, and $1.2 million at December 31, 2012, 2011, and 2010, respectively. 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 December 31, 2012 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 during the years ended December 31, 2012, 2011, and 2010, respectively.

NOTE 6: PREMISES AND EQUIPMENT, NET

Premises and equipment consisted of the following (in thousands):

As of December 31	**2012**	2011	2010
Land, buildings, and improvements	**$15,044**	$11,548	$9,586
Furniture and equipment	**12,179**	10,422	9,576
Subtotal	**27,223**	21,970	19,162
Less: accumulated depreciation	**(14,614)**	(13,384)	(12,288)
Total	**$12,609**	$8,586	$6,874

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral. The total line of credit was $3.0 billion, $3.0 billion, and $2.6 billion at December 31, 2012, 2011, and 2010, respectively, and the outstanding principal under the line of credit was $2.4 billion, $2.1 billion, and $2.2 billion at December 31, 2012, 2011, and 2010, respectively. The interest rate is adjusted monthly and was 1.2%, 1.5%, and 1.6% at December 31, 2012, 2011, and 2010, respectively. The maturity date is August 31, 2013, for our note payable, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2012, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, our Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all non-stockholder customers who purchase financial services with the exception of tax and farm accounting clients. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required 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%. The calculation of these ratios in accordance with FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2012, our ratio was 15.9%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2012, our ratio was 15.6%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2012, our ratio was 15.6%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all of our investment in AgriBank that is in excess of the required amount. We no longer have any excess stock at December 31 2012, 2011, or 2010, respectively.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2012. All shares and participation certificates were with a $5.00 par value.

	Shares Outstanding
Class B common stock (at-risk)	**1,528,682**
Class E participation certificates (at-risk)	**41,761**

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

Only holders of Class B stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2012, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In accordance with our bylaws, in the event of our liquidation or dissolution, any assets remaining after payment or retirement of all liabilities shall be distributed pro rata to all holders of stock and participation certificates.

In the event of impairment, losses will be absorbed by concurrent impairment of all classes of stock and participation certificates**.**

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $9.0 million, $9.0 million, and $10.0 million at December 31, 2012, 2011, and 2010, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements. In response to adverse weather conditions and the impact on Wisconsin farm families, a special, one-time mid-year patronage distribution was approved by the Board of Directors. This patronage distribution of $5.2 million was paid in cash in October 2012. Total patronage distributions were $14.2 million, $10.0 million, and $5.8 million for the years ended December 31, 2012, 2011, and 2010, respectively.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2013.

NOTE 9: INCOME TAXES

Provision for Income Taxes

Our provision for income taxes follows (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Current:			
Federal	**$109**	$1,690	$1,208
State	**--**	487	599
Total current	**109**	2,177	1,807
Deferred:			
Federal	**(45)**	354	354
State	**(11)**	90	88
Total deferred	**(56)**	444	442
Provision for income taxes	**$53**	$2,621	$2,249
Effective tax rate	**0.1%**	3.2%	2.9%

The following table quantifies the differences between the provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	**2012**	2011	2010
Federal tax at statutory rate (34%)	**$27,143**	$28,051	$26,184
State tax, net	**(3)**	355	438
Patronage distributions	**(4,241)**	(3,060)	(3,400)
Effect of non-taxable entity	**(22,919)**	(22,678)	(19,924)
Other	**73**	(47)	(1,049)
Provision for income taxes	**$53**	$2,621	$2,249

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition. Deferred tax assets and liabilities were composed of the following (in thousands):

As of December 31	**2012**	2011	2010
Allowance for loan losses	**$585**	$763	$1,499
Postretirement benefit accrual	**897**	898	895
Accrued patronage income not received	**(310)**	(384)	(735)
AgriBank, FCB 2002 allocated stock	**(1,221)**	(1,221)	(1,221)
Accrued pension asset	**(1,796)**	(1,815)	(2,088)
Depreciation	**(358)**	(450)	(159)
Other assets	**170**	187	164
Other liabilities	**(388)**	(455)	(388)
Net deferred tax liabilities	**($2,421)**	($2,477)	($2,033)
Gross deferred tax assets	**$1,652**	$1,848	$2,558
Gross deferred tax liabilities	**($4,073)**	($4,325)	($4,591)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2012, 2011, or 2010.

We have not provided for deferred income taxes on approximately $39.7 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $411.2 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various U.S. taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2012. In addition, we believe we are no longer subject to income tax examinations for years prior to 2009.

NOTE 10: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank, FCB and Affiliated Associations 2012 Annual Report (District financial statements).

The Farm Credit Foundations Coordinating and Trust Committees provide oversight of the District benefit plans. The governance committees are either elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee is responsible for decisions regarding benefits at the direction of the participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multiemployer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multiemployer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $442.6 million at December 31, 2012. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the District-wide plan was $1.1 billion, $934.8 million, and $834.2 million at December 31, 2012, 2011, and 2010, respectively. The fair value of the plan assets was $640.1 million, $557.6 million, and $573.0 million at December 31, 2012, 2011, and 2010, respectively. The amount of the pension benefits and funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Total plan expense for participating employers was $52.7 million, $44.0 million, and $37.0 million for 2012, 2011, and 2010, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" on the Consolidated Statements of Income was $3.5 million, $2.9 million, and $2.4 million for 2012, 2011, and 2010, respectively. Participating employers contributed $51.3 million, $27.9 million, and $25.3 million to the plan in 2012, 2011, and 2010, respectively. Our allocated share of these pension contributions was $3.4 million, $1.8 million, and $1.6 million for 2012, 2011, and 2010, respectively. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plans during 2013 is $57.2 million. Our allocated share of these pension contributions is expected to be $3.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits included in "Salaries and employee benefits" on the Consolidated Statements of Income were $83 thousand, $102 thousand, and $101 thousand for 2012, 2011, and 2010, respectively. Our cash contributions were equal to the benefits paid and were $86 thousand, $87 thousand, and $89 thousand for 2012, 2011, and 2010, respectively.

Retirement Savings Plan

We also participate in a defined contribution retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contribution expenses are included in "Salaries and employee benefits" on the Consolidated Statements of Income under the plan and were $1.0 million, $835 thousand, and $739 thousand in 2012, 2011, and 2010, respectively. These expenses are equal to our cash contributions for each year.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2012 involved more than a normal risk of collectability.

The following table represents information on loans and leases to related parties (in thousands):

	2012	2011	2010
As of December 31:			
Total related party loans and leases	**$60,238**	$52,898	$53,141
For the year ended December 31:			
Advances to related parties	**$24,495**	$34,044	$23,546
Repayments by related parties	**38,058**	42,038	27,628

The composition of related parties can be different each year end primarily due to changes in the make-up of our Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including financial and retail systems, support, and reporting, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $996 thousand, $998 thousand, and $985 thousand in 2012, 2011, and 2010, respectively. We purchase benefit, human resource information systems, payroll, and workforce management services from Foundations. Foundations was operated as a part of AgriBank prior to January 1, 2012 when it formed a System service corporation. The System entities using Foundations' services contributed an investment into the service corporation in January 2012. Our investment was $35 thousand at December 31, 2012. The total cost of services purchased from Foundations was $140 thousand in 2012.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding 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.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2012, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $1.0 billion. Additionally, we had $9.5 million of issued standby letters of credit as of December 31, 2012.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies.

NOTE 13: 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 Note 2 for a more complete description of the three input levels.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2012, 2011, or 2010. 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):

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

As of December 31, 2011	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$1,015	$953	$1,968	$2,030
Other property owned	--	--	5,481	5,481	(26)

As of December 31, 2010	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$2,700	$3,153	$5,853	($47)
Other property owned	--	--	265	265	124

Valuation Techniques

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 14: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 4, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Net loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio unmarketable outside the System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of loans not individually impaired. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

For fair value of loans individually impaired, we assume collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Equity investment: Given the limited information available related to the expected return of our non-controlling interest in a venture capital fund and current earnings of the fund do not indicate impairment or projected losses, fair value was estimated at cost.

Note payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit and letters of credit: Estimating the fair value of commitments and letters of credit is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

	2012		2011		2010	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans	**$2,851,366**	**$2,881,022**	$2,594,263	$2,629,260	$2,572,497	$2,595,456
Equity investment	**3,235**	**3,235**	1,885	1,885	1,235	1,235
Financial liabilities:						
Note payable to AgriBank	**$2,357,428**	**$2,378,600**	$2,144,163	$2,168,627	$2,173,066	$2,186,512
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**($1,312)**		($1,215)		($1,096)

NOTE 15: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the year ended December 31 follows (in thousands):

2012	First	Second	Third	Fourth	Total
Net interest income	**$21,399**	**$21,001**	**$22,159**	**$21,152**	**$85,711**
(Reversal of) provision for loan losses	**(1,584)**	**(41)**	**576**	**(1,071)**	**(2,120)**
Patronage income	**4,249**	**4,579**	**4,847**	**6,695**	**20,370**
Other expense, net	**6,782**	**6,131**	**5,177**	**8,463**	**26,553**
Provision for (benefit from) income taxes	**837**	**531**	**(1,595)**	**280**	**53**
Net income	**$19,613**	**$18,959**	**$22,848**	**$20,175**	**$81,595**

2011	First	Second	Third	Fourth	Total
Net interest income	$21,337	$21,286	$20,715	$21,185	$84,523
Provision for (reversal of) loan losses	317	(217)	(4,350)	(1,151)	(5,401)
Patronage income	3,553	3,758	3,751	5,999	17,061
Other expense, net	6,717	7,640	2,039	8,085	24,481
Provision for (benefit from) income taxes	1,324	696	986	(385)	2,621
Net income	$16,532	$16,925	$25,791	$20,635	$79,883

2010	First	Second	Third	Fourth	Total
Net interest income	$17,829	$18,309	$18,892	$19,517	$74,547
Provision for (reversal of) loan losses	791	112	257	(2,157)	(997)
Patronage income	3,648	3,358	3,432	8,146	18,584
Other expense, net	4,149	6,124	92	6,753	17,118
Provision for (benefit from) income taxes	1,815	1,371	(646)	(291)	2,249
Net income	$14,722	$14,060	$22,621	$23,358	$74,761

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 7, 2013, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2012 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Badgerland Financial, ACA

(Unaudited)

Description of Business

General information regarding the business is discussed in Note 1 of this Annual Report.

The description of significant business developments, if any, is discussed in the “Management's Discussion and Analysis" portion of this Annual Report.

Description of Property

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Arcadia	Owned	Branch
Baraboo	Owned	Branch
Beaver Dam	Owned	Branch
Black River Falls	Owned	Commercial Property - Former Branch
Burlington	Leased	Branch
Chilton	Owned	Branch
Darlington	Owned	Commercial Property - Former Branch
Dodgeville	Owned	Branch
Fond du Lac	Owned	Branch
Janesville	Owned	Branch
Lancaster	Owned	Branch
Madison	Owned	Branch
Mondovi	Owned	Branch
Monroe	Leased	Branch
Plymouth	Owned	Branch
Prairie du Sac	Owned	Corporate Headquarters
Sparta	Owned	Branch
Viroqua	Leased	Branch
Watertown	Owned	Branch

In October 2012 our Corporate Headquarters moved from Baraboo, Wisconsin to Prairie du Sac, Wisconsin.

Legal Proceedings

Information regarding legal proceedings is discussed in Note 12 of this Annual Report. We were not subject to any enforcement actions at December 31, 2012.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 8 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 7, 8, 9, 10, 12, and 14 of this Annual Report.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data” is presented at the beginning of this Annual Report.

Management’s Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis” portion of this Annual Report.

Board of Directors

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

- The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of the Association's internal audit program, the independence of the outside auditors, and the processes for monitoring compliance with laws and regulations and the code of ethics. The Audit Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities;
- The **Governance Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies, and administers a planning process focused upon achieving our mission and maintaining a viable, competitive institution; and
- The **Compensation Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.

Information regarding directors who served as of December 31, 2012, including business experience in the last five years and any other business interest where a director serves on the Board of Directors or as a senior officer follows:

Gary Boyke, Director, is the owner of Vir-Clar Farms, LLC, a family dairy farm. He is also the owner a sporting goods store, Dutchs LLC, specializing in fishing, archery, and guns. He has been a member of Badgerland Financial since 1976. His term began in 2012 and expires in 2015.

Mark Cade, Vice Chairperson of the Board, is a self-employed dairy and grain farmer. His term began in 2012 and expires in 2015.

Ken Congdon, Director, is a self-employed grain farmer. His term began in 2011 and expires in 2014.

James Cullen, Director, is a self-employed cash crop farmer. He is also a Crop Insurance Adjuster with Farmers Mutual Hail Insurance Company and a licensed Wisconsin property casualty insurance agent. His term began in 2011 and expires in 2014.

Jerome Durst, Director, is a self-employed dairy farmer. He also serves as Chairman on the Marshall Township board. His term began in 2012 and expires in 2015.

Timothy Evert, Director, is an owner/partner in United Dreams Dairy LLC. He is also President of Evert Farms Inc. His term began in 2010 and expires in 2013.

Jim Fahey, Director, is a self-employed dairy and grain farmer. He is also a director for Landmark, which sells agricultural supplies. His term began in 2010 and expires in 2013.

Dave Kuhle, Director, is a self-employed dairy, beef, and grain farmer. He is also a licensed Building Contractor and Homebuilder. His term began in 2011 and expires in 2014.

Jerome Laufenberg, Director, is a self-employed grain and livestock farmer. His term began in 2010 and expires in 2013.

John Manske, Outside Director, is a Director of Government Relations for Cooperative Network, a multi-state trade association. His term began in 2011 and expires in 2014.

Lori Meinholz, Director, is a partner in Blue Star Dairy. Her term began in 2012 and expires in 2015.

Gregory Pollesch, Outside Director, is a Director and the Chief Financial Officer for Galloway Company, a sweetened condensed milk and ice cream mix manufacturer. Prior to his current position, Mr. Pollesch worked for a cheese manufacturer. His term began in 2010 and expires in 2013.

Jim Rickert, Director, an owner/operator of Rickert Brothers LLC. His term began in 2010 and expires in 2013.

Michael Winker, Chairperson of the Board, is a self-employed dairy and cash crop farmer and serves on the board of Ozaukee County Dairy Promotion. His term began in 2011 and expires in 2014.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of $450 per day per diem for Board meetings and $150 per diem for conference calls. In addition, the directors receive 20 cents per mile over the standard Internal Revenue Service rate. The Chairperson received an additional $125 per month, the Vice Chairperson received an additional $50 per month, the Audit Committee Chairperson received an additional $500 per year, and each director received an annual retainer fee of $3,000.

Information regarding compensation for each director who served during 2012 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2012
	Board Meetings	Other Official Activities			
Gary Boyke	12.0	19.0	$941	Audit	$16,499
Mark Cade	12.0	19.0	632	Audit	17,169
			965	Governance	
Ken Congdon	12.0	16.0	3,311	Governance - Vice Chair	16,437
James Cullen	12.0	30.5	1,118	Compensation - Vice Chair	22,335
Jerome Durst	12.0	18.0	1,412	Compensation	16,947
Timothy Evert	12.0	17.0	1,518	Compensation - Chair	16,196
			2,250	Governance	
Jim Fahey	11.0	19.0	1,401	Compensation	17,205
Dave Kuhle	12.0	11.5	1,720	Audit	13,530
Jerome Laufenberg	12.0	29.0	2,114	Audit - Vice Chair	21,296
			490	Compensation	
John Manske	12.0	6.0	470	Governance	11,403
			150	Audit	
Lori Meinholz	12.0	21.0	1,838	Audit	17,394
Bernard Meyer*	4.0	7.0	491	Audit	8,322
Gregory Pollesch	12.0	8.0	2,630	Audit - Chair	11,687
Jim Rickert	12.0	10.0	974	Governance - Chair	13,919
Michael Winker	12.0	40.0	1,971	Audit	26,780
			1,479	Compensation	
Total	171.0	271.0	$27,875		$247,119

*Term expired in 2012

Senior Officers

The senior officers (and the date each began his/her current position) include:

Diane M. Cole, Chief Executive Officer
(September 2006 to present)

Gregory S. Rufsvold, Senior Vice President, Chief Financial Officer
(July 1998 to present)

Marcia Barron, Vice President, Risk Management
(January 2012 to present)

Amber Bennett, Senior Vice President, Credit Delivery
(January 2010 to present)

Tom Blackbourn, Vice President, Human Resources
(January 2010 to present)

Patrick Link, Senior Vice President, Marketplace Strategies
(March 2010 to present)

Terry A. McMahon, Senior Vice President, Chief Credit Officer
(July 2011 to present)

Prior to joining Badgerland Financial, ACA, Ms. Barron had been with Credit Union National Association, Inc. where she served as the Director of Internal Audit from 1998 through 2009 and with Meriter Health Services, Inc. where she served as the Internal Audit Manager from 2009 through 2011. Ms. Bennett was the Vice President of Farm & Home from 2007 to 2010. Mr. Blackbourn has been a manager in the Human Resources department since 1999. Prior to joining Badgerland Financial, ACA, Mr. Link had been with Wells Fargo Bank, N.A. since 1991 where he had served as a Vice President and Regional Manager in the Consumer Operations Department. Prior to becoming our Chief Credit Officer, Mr. McMahon held various positions with us including Vice President of Internal Audit and, more recently, the Assistant Chief Credit Officer.

Other business interests where a senior officer served as a director or senior officer include:

Marcia Barron is the Chairperson of the Board for Almar Farms, Inc. (a land leasing corporation).

Diane M. Cole serves on the Trust Committee of Farm Credit Foundations.

Patrick Link serves as Vice Chairman of the Wisconsin Ag and Education Workforce Development Council (workforce development for Wisconsin agriculture industry), Vice President and a director of Wisconsin 4H Foundation (fundraising for Wisconsin 4H), and a director of Competitive Wisconsin Inc (recommends action on issues affecting Wisconsin's economy).

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 11 of this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 1430 North Ridge Drive, Prairie du Sac, Wisconsin 53578, (877) 780-6410, or e-mail Greg.Rufsvold@badgerlandfinancial.com**.**

The total directors' travel, subsistence, and other related expenses were $53 thousand, $50 thousand, and $52 thousand in 2012, 2011, and 2010, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2013 or at any time during 2012.

Member Privacy

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2012 were $72 thousand. The fees paid were for audit services.

Financial Statements

The "Report of Management", "Report on Internal Control Over Financial Reporting", "Report of Audit Committee", "Independent Auditor's Report", "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the Annual Report.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, religion, national origin, sex, age, disability, veteran status, genetic information, sexual orientation, creed, marital status, status with regard to public assistance, membership or activity involving a local human rights commission, or any other characteristic protected by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

FUNDS HELD PROGRAM

Badgerland Financial, ACA

We offer a Funds Held Program ("Program") that provides for Borrowers to make uninsured advance payments on designated loans for the purpose of paying future maturities or other related charges.

Objective

We offer the Funds Held Program for the benefit and convenience of Borrowers who desire to make advance payments.

The following terms and conditions apply to Program accounts in connection with loans from us, subject to any rights that we or Borrower may have as specified in loan documents governing designated loans.

Handling Advance Payments

- Advance payments received on a loan participating in the Program before the loan has been billed will normally be placed in the Program account as of the date received, to be applied against the next installment or other related charges on the installment due date. This is subject to any rights that we may have to apply such payments in a different manner as specified in loan documents governing designated loans.
- Advance payments received on a loan participating in the Program after the loan has been billed will be directly applied to the installment due on the loan or other related charges and will not earn interest.
- Funds received in excess of the installment amount or other related charges will be placed in the account.
- If a special prepayment of principal is desired, Borrowers must so specify at the time funds are paid in advance to us.
- When an installment becomes due, any accrued interest in the account and other funds in the account for the loan will be automatically applied toward payment of the installment or related charges on the due date. If the balance in the account is not adequate to pay the installment or related charges in full, Borrowers are expected to pay the difference by the installment due date. Any excess funds will remain in the account. Even when no installment or related charge is due, the Association may, at its option, apply funds from the account without notice to Borrowers as follows:
  - **Protective Advances**. If the Borrowers fail to pay when due other items as required pursuant to the mortgage, deed of trust, promissory note or any other loan documents, we may apply funds in the account to pay them.
  - **Account Ceiling.** If the account balance exceeds the unpaid balance of the loan, we may apply the funds in the account to repay the entire unpaid balance and will return any excess funds.
  - **Transfer of Security**. If the Borrowers sell, assign, or transfer any interest in the underlying collateral, we may apply the funds in the Account against the remaining loan balance.
  - **Deceased Borrowers**. If all Borrowers are deceased, we may apply the funds in the account to the remaining loan balance.

Interest on the Account

Interest will accrue on the account at a rate determined by the Association, but the rate may never exceed the interest rate charged on the related loan. Interest on Account balances (exclusive of funds applied directly to billed amounts) will normally accrue from the date of receipt of the funds until the date the funds are applied to the loan against an installment due or other related charges. The Association may change the interest rate from time to time, and may provide for a different interest rate for different categories of loans. Currently, funds in the account earn a rate of interest equal to 3.0% less than the loan rate.

Borrower Withdrawals from Accounts

We may permit Borrowers to withdraw funds from the Account according to the Program, including payments of future installments and insurance or real estate taxes for the respective loan. In addition, with our approval, Borrowers may withdraw funds for other eligible loan purposes in lieu of increasing the borrower's loan.

Liquidation

Account balances are not insured. In the event of liquidation, all Borrowers having balances in these uninsured accounts shall be notified according to Regulations then in effect. Applicable regulations now provide that the notice shall instruct that the funds ceased earning interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the Borrowers unless, within 15 days' notice, the Borrower provides direction to the Association to apply the funds according to existing loan documents.

Termination

If we terminate the Program, account balances will be applied to the loan balance, and any remaining excess funds will be refunded to the Borrower.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Badgerland Financial, ACA

Definitions

The Farm Credit Administration (FCA) has defined Young Farmers as age 35 or younger as of the loan transaction date, Beginning Farmers as having 10 years or fewer farming experience as of the loan transaction date, and Small Farmers as having sustained annual gross sales from agricultural production of less than $250,000 annually.

Badgerland Demographics

The most recent US Department of Agriculture (USDA) Census of Agriculture uses categories that are slightly different from the FCA definitions of Young, Beginning, and Small (YBS) Farmers, but the census is the best available measure of the Badgerland marketplace. USDA defines a farm as "any place from which $1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the census year." There are 42,818 farms in the Badgerland chartered territory according to USDA. The primary operator is younger than 35 on 2,269 of the farms in the Badgerland territory (5% of the total). The census shows that 23% of the primary farm operators (9,996) in the Badgerland territory have been on their present farms for less than ten years. Eighty nine percent (38,149) of the farms in the Badgerland territory had agricultural sales less than $250,000 in the USDA census. Previous studies have shown that 40% of the Small Farmers (less than $250 thousand of sales) in the Badgerland territory had no debt. More than 14,000 farms (33%) had less than $1,000 in agricultural sales in the census year, and 23,000 farms (54%) had less than $10,000 in agricultural sales.

Badgerland Financial Mission Statement

YBS Farmers are essential to future prosperity in rural America. Providing financially sound and constructive credit and financial services to YBS Farmers is a high priority for Badgerland Financial.

The Badgerland Board of Directors approved a YBS Farmer policy in 1999 and revised it most recently in February 2010. Badgerland believes that YBS Farmers are essential to the continued prosperity of Wisconsin agriculture. It makes good business sense to serve this market segment.

Badgerland Financial Portfolio

The following table includes Badgerland YBS loans as of December 31, 2012. Beginning farmer percentages are adjusted for capital market participations purchased. The USDA column was adjusted for the percentage of YBS Farmers with debt out of all farms with debt in the Badgerland territory.

Category	Number of Loans	Volume (millions)	Percent of Portfolio	USDA Census
Young	5,003	$609	20%	20%
Beginning	5,208	651	21%	6%
Small	12,386	861	28%	87%

Targets and Goals

Badgerland has placed additional emphasis on YBS lending and expects increases in both the number and volume of YBS loans. Badgerland has adjusted YBS targets in future years, with a larger percentage increase for volume compared to number of loans. Average loan size is increasing because of higher input costs. Commodity prices have increased so that someone who met the Small farmer criteria previously may now have over $250,000 of gross farm income while farming the same number of production units. Badgerland expects slower growth in Small farmer loans and volume as most farms generate more gross income in order to support a reasonable family living lifestyle. Beginning in 2010, Badgerland now collaborates with AgDirect, LLP to provide trade credit and leasing services in the Badgerland Territory. Previous to participating with AgDirect, LLP the YBS portfolio would have included loans for trade credit and leasing services.

Young, Beginning & Small Farmer Volume (Dollars in millions)				
Category	**2012 Results**	**2013 Targets**	**2014 Targets**	**2015 Targets**
Young Farmer Loans	5,004	5,204	5,464	5,792
Young Farmer Volume	$610	$658	$724	$811
Beginning Farmer Loans	5,208	5,520	5,907	6,379
Beginning Farmer Volume	$651	$716	$802	$914
Small Farmer Loans	12,388	12,636	13,015	13,535
Small Farmer Volume	$862	$897	$951	$1,027

Calendar Year Loan Activity (Originations & Renewals) (Dollars in millions)				
Category	**2012 Results**	**2013 Targets**	**2014 Targets**	**2015 Targets**
Young Farmer Loans	2,237	2,326	2,443	2,589
Young Farmer Volume	$229	$247	$272	$304
Beginning Farmer Loans	2,319	2,505	2,755	3,086
Beginning Farmer Volume	$273	$306	$349	$405
Small Farmer Loans	5,385	5,493	5,657	5,884
Small Farmer Volume	$256	$266	$282	$304

YBS Program Features

In the fall of 2008, the Badgerland Board approved an innovative program for Young and Beginning (YB) Farmers. “Beginning with Badgerland” includes special loan underwriting criteria, coordination with the Wisconsin Department of Agriculture and the USDA Farm Service Agency, continuing education, and networking. A key feature is a grant from Badgerland Financial (5% of the loan amount) that the YB farmer can use for education and services that improve the farming operation’s prospects for success. Badgerland plans special advertising and marketing to increase awareness within the territory and attract YB Farmers. To ensure that YBS credit is within Badgerland’s risk-bearing capacity, Badgerland limits Young farmer loans to 150% of ACA capital.

Badgerland offers twenty $1,000 scholarships to graduating high school seniors who are pursuing their interest and studies in agriculture at a short course, technical school, or university. Badgerland Financial also offers four $2,000 scholarships (two each at UW-Madison and UW-River Falls) as well as participates in the UW Platteville 5x5x5 program which awards five $1,000 scholarships to current university students with junior/senior status that have exhibited leadership, are academically strong and are pursuing a degree in an agricultural related field. Two $500 scholarships are offered to returning UW Short Course students. The scholarships are widely publicized.

Badgerland also coordinates with Wisconsin technical colleges, University of Wisconsin agriculture colleges, the cooperative extension service, the Wisconsin Department of Agriculture, other farm cooperatives, and other providers to make educational opportunities and leadership training available to YBS Farmers. Badgerland cooperates with other lenders (commercial banks, Farm Service Agency, etc.) to meet the credit needs of YBS Farmers.

Badgerland YBS Farmers qualify for discounts on farm accounting services, discounts on income tax preparation, and discounts on producer education sessions. Badgerland also offers risk management services (crop insurance, livestock insurance, life insurance, disability insurance) to YBS Farmers. Badgerland provides financial and staff support for the Outstanding Young Farmer program, Wisconsin Ag Women’s Summit, Wisconsin Farm Bureau YFA Conference and regularly contributes to agricultural youth groups (4-H, Future Farmers of America, etc.) and related activities.

FINANCIAL ANSWERS

for agriculture and rural Wisconsin.

Badgerland Financial believes in enriching rural lives and communities, one relationship at a time. We offer financial tools to meet the unique–and sometimes challenging–needs of agriculture and rural Wisconsin. When you need financial services and industry-leading expertise, we are here for you.

- Real Estate Loans
- Operating & Installment Loans
- Machinery & Equipment Loans
- Agribusiness Loans
- Country Living Loans
- Home & Construction Loans
- Leasing Services
- Farm Accounting Services
- Estate & Income Tax Services
- Appraisals
- Crop Insurance
- Life & Disability Insurance
- and more!

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