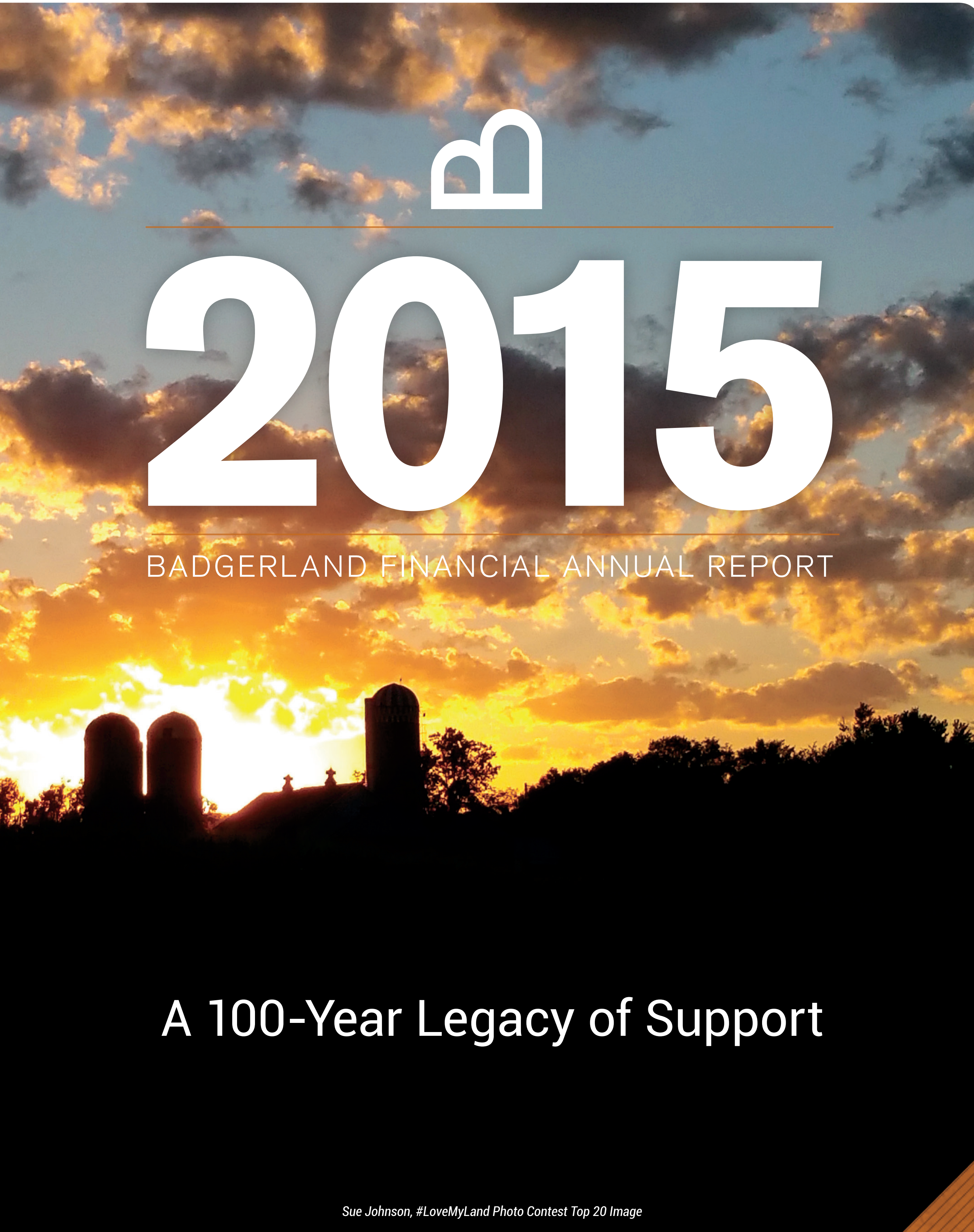
2015

BADGERLAND FINANCIAL ANNUAL REPORT



A 100-Year Legacy of Support

Sue Johnson, #LoveMyLand Photo Contest Top 20 Image

Brianna Ellie, #LoveMyLand Photo Contest Top 20 Image

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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:

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Our Annual Report is available on our website no later than 75 days after the end of the calendar year and 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 no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports contact us as stated above.

MESSAGE FROM THE CHAIRPERSON OF THE BOARD AND CHIEF EXECUTIVE OFFICER

To our Members, Friends and Business Affiliates:

We are pleased to provide you with the 2015 Annual Report for Badgerland Financial. As a member-owned cooperative dedicated to serving agriculture and our rural communities, we remain keenly focused on the importance of our relationships with all of you. Our role in supporting the continued success of agriculture and the availability of funding and financial services for rural Wisconsin drives our team members each and every day.

Despite volatile markets, we report continued financial strength that provides the cooperative with the capacity to meet your unique needs today and in the future. Our earnings were solid in 2015, our portfolio remains strong and our capital position is well established.

The Board of Directors has declared a total of $13.5 million in cash patronage dividends for business in 2015, surpassing pay out levels of years past. Supporting our cooperative structure, we couldn't be more proud to share our financial success with our eligible member-owners. In fact, we have paid total cash patronage dividends of over $111 million since 2004.

As we look to 2016 the Farm Credit System is celebrating its 100th Anniversary. Worth celebrating indeed, this centennial milestone highlights the stability of Farm Credit associations, like Badgerland Financial. Our team is more ready than ever to help you successfully navigate the weakened agriculture economy we are experiencing, now and in the future.

We realize that when it comes to lenders and financial services providers you have options. We believe we are the best when it comes to providing solutions to meet *your* goals. That's because no other financial institution better appreciates your past, understands the realities of today and shares your desire for sustained success in the future.

Sincerely,

Mark W. Cade

Mark Cade
Chairperson of the Board
Badgerland Financial, ACA

Diane M Cole

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

March 10, 2016

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Badgerland Financial, ACA

(dollars in thousands)

	2015	2014	2013	2012	2011
Statement of Condition Data					
Loans	**$ 3,776,123**	$ 3,414,943	$ 3,232,452	$ 2,855,906	$ 2,600,884
Allowance for loan losses	**11,600**	9,378	2,740	4,540	6,621
Net loans	**3,764,523**	3,405,565	3,229,712	2,851,366	2,594,263
Investment in AgriBank, FCB	**101,777**	96,807	101,016	94,045	83,317
Other property owned	**307**	782	1,293	3,664	5,270
Other investments	**7,938**	6,725	4,250	3,235	1,885
Other assets	**66,559**	64,597	58,920	52,847	49,111
Total assets	**$ 3,941,104**	$ 3,574,476	$ 3,395,191	$ 3,005,157	$ 2,733,846
Obligations with maturities of one year or less	**$ 3,132,654**	$ 2,827,516	$ 2,709,642	$ 2,389,009	$ 2,185,414
Total liabilities	**3,132,654**	2,827,516	2,709,642	2,389,009	2,185,414
Capital stock and participation certificates	**8,527**	8,345	8,151	7,852	7,548
Unallocated surplus	**799,923**	738,615	677,398	608,296	540,884
Total members' equity	**808,450**	746,960	685,549	616,148	548,432
Total liabilities and members' equity	**$ 3,941,104**	$ 3,574,476	$ 3,395,191	$ 3,005,157	$ 2,733,846
Statement of Income Data					
Net interest income	**$ 95,294**	$ 93,964	$ 90,350	$ 85,711	$ 84,165
Provision for (reversal of) loan losses	**2,666**	7,962	(772)	(2,120)	(5,401)
Other expenses, net	**17,820**	11,785	12,469	6,236	9,683
Net income	**$ 74,808**	$ 74,217	$ 78,653	$ 81,595	$ 79,883
Key Financial Ratios					
Return on average assets	**2.0%**	2.2%	2.5%	2.9%	2.9%
Return on average members' equity	**9.6%**	10.3%	12.1%	14.0%	15.6%
Net interest income as a percentage of average earning assets	**2.7%**	2.9%	3.0%	3.2%	3.2%
Members' equity as a percentage of total assets	**20.5%**	20.9%	20.2%	20.5%	20.1%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.0%	0.0%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.1%	0.2%	0.3%
Permanent capital ratio	**16.6%**	16.6%	15.5%	15.9%	15.0%
Total surplus ratio	**16.4%**	16.4%	15.3%	15.6%	14.8%
Core surplus ratio	**16.4%**	16.4%	15.3%	15.6%	14.8%
Net Income Distributed					
Patronage distributions:					
Cash	**$ 13,000**	$ 9,550	$ 9,001	$ 14,183	$ 9,994

The patronage distribution to members accrued for the year ended December 31, 2015 is distributed in cash during the first quarter of 2016. The patronage distributions accrued for the years ended December 31, 2014, 2013, 2012, and 2011 were distributed in cash during the first quarter of each subsequent year. 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. 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 condition and consolidated results of operations of Badgerland Financial, ACA (the Association) and its subsidiaries, Badgerland Financial, FLCA and Badgerland Financial, PCA (subsidiaries) and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. The System supports rural communities and agriculture by providing reliable and consistent credit and financial services. As of January 1, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 customer-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System bank, and its affiliated Associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). 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. The Farm Credit System Insurance Corporation (FCSIC) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

FORWARD-LOOKING INFORMATION

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

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

AGRICULTURAL AND ECONOMIC CONDITIONS

2015 growing and harvest conditions were favorable. Yields were good and for some producers were at record levels. The result of the strong grain yields has been an increase in inventories and continued downward pressure on prices. Feed supplies for most livestock producers are good. Current cash prices for corn are about \$3.29 per bushel (bu) with soybeans at approximately \$8.30/bu. The cash price bids for the fall of 2016 are similar. Futures prices for the 2016 new crop corn are approximately \$3.68/bu with soybeans at approximately \$8.87/bu. Fertilizer prices have moderated; however, other input costs, including cash rent prices, have not. Margins for cash grain producers will be very narrow or negative in 2016, especially for producers that are renting significant acreage.

Class III milk price for the fourth quarter averaged \$15.07 per hundredweight (cwt). This compares to \$21.19/cwt for the fourth quarter of 2014. Calendar year 2015 averaged \$15.80/cwt compared to a 2014 average of \$22.34 cwt. Milk futures for 2016 (March - October) are currently averaging \$14.11/cwt. All milk prices are before premiums. The significant drop in milk prices in 2015 was partially offset by lower feed prices (in particular corn and hay), 2015 prepays of expense that were done for tax planning purposes late in 2014, and continued strong cull cow prices. However, unless milk prices show significant improvement, margins will be very tight or negative in 2016.

Overall, land values remained stable in 2015. Some slippage in land values is expected in 2016 due to both the cash grain and dairy enterprises seeing a significant reduction in profitability.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.8 billion at December 31, 2015, an increase of $361.2 million from December 31, 2014.

Components of Loans

(in thousands) As of December 31	**2015**	2014	2013
Accrual loans:			
Real estate mortgage	**$ 2,106,239**	$ 1,905,980	$ 1,821,176
Production and intermediate term	**905,063**	848,321	863,609
Agribusiness	**480,130**	411,013	311,361
Other	**267,047**	238,097	227,248
Nonaccrual loans	**17,644**	11,532	9,058
Total loans	**$ 3,776,123**	$ 3,414,943	$ 3,232,452

The other category is primarily comprised of communication, rural residence related, international, and energy loans as well as loans originated under our mission related investment authority.

Accrual mortgage loan volume increased $290.6 million or 11.0% since 2014 year end. Although loan growth started out slow, the association had a very successful marketing campaign which focused on long term fixed rates. In addition, the capital markets portfolio (loan participation purchases) showed a significant increase in outstanding principal balance in the latter half of the year after showing some pay down in the first quarter of 2015.

Accrual commercial loan volume increased $64.5 million or 8.5% since 2014 year end. In addition to new borrower relationships in 2015, there continued to be some dairy expansions with existing customers which contributed to the increase in loan volume. Tighter margins in both the dairy and grain enterprises have resulted in a slower pay down of term debt. Low grain prices have resulted in more producers storing the 2015 crop in anticipation of higher prices in the first half of 2016 which has resulted in a slower pay down of existing operating loans. Tighter grain and dairy margins have also resulted in an increased demand for operating credit.

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, credit risk, market conditions, and the need to generate sufficient earnings.

On July 1, 2015 we sold to AgriBank a 90.0% participation interest in certain real estate loans under the AgriBank Asset Pool program totaling $49.9 million. These loan participations were added to the participation pool originally established by AgriBank in 2008. As a result of this transaction, we were required to purchase additional AgriBank stock in order to maintain the required investment equal to 8.0% of the loans we have sold under this program. Our total participation interests in this program were $428.9 million, $444.2 million, and $442.2 million at December 31, 2015, 2014, and 2013, respectively.

Portfolio Distribution

We are chartered to serve certain counties in Wisconsin. Approximately 13.2% of our total loan portfolio was in Dane, Fond Du Lac, and Adams counties at December 31, 2015.

Agricultural concentrations exceeding 5.0% of our portfolio at December 31, 2015 included: crops 32.2%, dairy 30.4%, livestock 8.0%, and rural home 6.6%. Additional commodity concentration information is included in Note 3 to the accompanying Consolidated Financial Statements.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2014. Adversely classified loans slightly increased to 2.3% of the portfolio at December 31, 2015, from 2.2% of the portfolio at December 31, 2014. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At December 31, 2015, $121.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

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

Components of Risk Assets

(dollars in thousands)

As of December 31	2015	2014	2013
Loans:			
Nonaccrual	**$ 17,644**	$ 11,532	$ 9,058
Accruing restructured	**608**	56	4
Accruing loans 90 days or more past due	**711**	249	1,029
Total risk loans	**18,963**	11,837	10,091
Other property owned	**307**	782	1,293
Total risk assets	**$ 19,270**	$ 12,619	$ 11,384
Total risk loans as a percentage of total loans	**0.5%**	0.3%	0.3%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.3%	0.3%
Total delinquencies as a percentage of total loans	**0.4%**	0.5%	0.4%

Our risk assets have increased from December 31, 2014, but remain at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The increase in nonaccrual loans was due primarily to several loans within our portion of the ProPartners Financial alliance portfolio moving to nonaccrual as well as the transfer of a large participation loan to nonaccrual. Nonaccrual loans remained at an acceptable level at December 31, 2015, 2014, and 2013 and 47.5%, 55.2%, and 67.1% of our nonaccrual loans were current at December 31, 2015, 2014, and 2013, respectively.

The increase in accruing restructured loans was primarily due to a transfer of a production and intermediate term loan in the amount of $353 thousand, as of December 31, 2015, to accruing restructured status during the first quarter of 2015 and a transfer of a real estate mortgage loan of $246 thousand, as of December 31, 2015, to accruing restructured status during the second quarter of 2015.

The increase in accruing loans 90 days or more past due was primarily due to an increase in delinquent loans in the production and intermediate term category and due to several loans within our portion of the ProPartners Financial alliance portfolio becoming past due for 90 days or more. 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.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of December 31	2015	2014	2013
Allowance as a percentage of:			
Loans	**0.3%**	0.3%	0.1%
Nonaccrual loans	**65.7%**	81.3%	30.2%
Total risk loans	**61.2%**	79.2%	27.2%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to risk funds	**12.6%**	11.8%	12.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2015.

Additional loan information is included in Notes 3, 10, 11, and 12 to the accompanying Consolidated Financial Statements.

OTHER INVESTMENTS

In addition to loans, we hold non-controlling investments in venture capital equity funds of $7.9 million, $6.7 million, and $4.3 million at December 31, 2015, 2014, and 2013, respectively. These investments represent our stake in two venture capital equity funds focused on the needs of rural start-up companies. Our remaining commitment to the funds at December 31, 2015 was $1.8 million through December 2018.

The investments were evaluated for impairment. During the year ended December 31, 2013, $385 thousand of impairment was recognized on these investments. No impairments were recognized on these investments during 2015 or 2014. During the year ended December 31, 2015, we have received $237 thousand in distributions from the funds. We did not receive any distributions during the years ended December 31, 2014 or 2013.

Additional other investment information is included in Note 5.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the year ended December 31		2015		2014		2013
Net income	**$**	**74,808**	$	74,217	$	78,653
Return on average assets		**2.0%**		2.2%		2.5%
Return on average members' equity		**9.6%**		10.3%		12.1%

Changes in these ratios relate directly to:

- Changes in income as discussed below
- Changes in assets as discussed in the Loan Portfolio and Other Investments sections
- Changes in members' equity as discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

(in thousands)	For the year ended December 31						Increase (decrease) in net income			
		2015		2014		2013		**2015 vs 2014**		2014 vs 2013
Net interest income	**$**	**95,294**	$	93,964	$	90,350	**$**	**1,330**	$	3,614
Provision for (reversal of) loan losses		**2,666**		7,962		(772)		**5,296**		(8,734)
Patronage income		**19,939**		22,393		22,268		**(2,454)**		125
Other income, net		**17,579**		17,241		15,083		**338**		2,158
Operating expenses		**55,873**		52,513		50,087		**(3,360)**		(2,426)
Benefit from income taxes		**(535)**		(1,094)		(267)		**(559)**		827
Net income	**$**	**74,808**	$	74,217	$	78,653	**$**	**591**	$	(4,436)

Net Interest Income

Changes in Net Interest Income

(in thousands)		**2015 vs 2014**		2014 vs 2013
Changes in volume	**$**	**6,550**	$	8,180
Changes in interest rates		**(5,170)**		(4,357)
Changes in nonaccrual income and other		**(50)**		(209)
Net change	**$**	**1,330**	$	3,614

Net interest income included income on nonaccrual loans that totaled $0.5 million, $0.6 million, and $0.8 million in 2015, 2014, and 2013, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.7%, 2.9%, and 3.0% in 2015, 2014, and 2013, respectively. We expect margins to further compress in the future if interest rates continue to rise and competition remains strong.

Provision for (Reversal of) Loan Losses

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

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. The patronage rates were 26.0 basis points, 33.5 basis points, and 34.5 basis points in 2015, 2014, and 2013, respectively. We recorded patronage income of $7.4 million, $9.0 million, and $8.5 million in 2015, 2014, and 2013, respectively.

Since 2008, we have participated in the AgriBank Asset Pool program in which we sell participation interests in certain real estate loans to AgriBank. As part of this program, we received patronage income in an amount that approximated the net earnings of the loans. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable. In addition, we received patronage income in an amount that approximated the wholesale patronage had we retained the volume. We recorded asset pool patronage income of $11.0 million, $11.8 million, and $12.6 million in 2015, 2014, and 2013, respectively.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. Additionally, we earn equalization on any stock investment in AgriBank required to be held when our growth exceeds a targeted growth rate. The equalization rate is targeted at the average cost of funds for all affiliated Associations as a group. Equalization income totaled $2 thousand in 2014. No equalization income was received in 2015 or 2013.

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. Patronage distributions are paid to AgDirect, LLP, which in turn pays partnership distributions to the participating associations. We receive a partnership distribution in an amount that approximates our share of the net earnings of the loans in the program, adjusted for required return on capital and servicing and origination fees. We received a partnership distribution of $1.4 million, $1.4 million, and $0.9 million in 2015, 2014, and 2013, respectively.

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

Other Income

The change in other income was primarily related to a decrease in miscellaneous (loss) income, net, as a result of the sale of one of our branch offices during the year ended December 31, 2014.

Operating Expenses

Components of Operating Expenses

(dollars in thousands)

For the year ended December 31	**2015**	2014	2013
Salaries and employee benefits	**$ 35,081**	$ 33,599	$ 32,592
Purchased and vendor services	**2,864**	2,656	2,360
Communications	**1,281**	1,228	1,183
Occupancy and equipment	**4,558**	4,212	3,857
Advertising and promotion	**2,056**	2,371	2,614
Examination	**960**	899	860
Farm Credit System insurance	**3,805**	3,287	2,488
Other	**5,268**	4,261	4,133
Total operating expenses	**$ 55,873**	$ 52,513	$ 50,087
Operating rate	**1.6%**	1.6%	1.7%

The operating expense increases were primarily related to increases in salaries and benefits resulting primarily from staffing additions as well as normal annual merit increases, purchased services, and occupancy and equipment costs.

FCSIC insurance expense increased in 2015 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 12 basis points in 2014 to 13 basis points in 2015. The Insurance Corporation has announced premiums will increase to 16 basis points for the first half and 18 basis points for the second half of 2016.

Benefit from Income Taxes

The variance in benefit from income taxes is related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2015, 2014, and 2013. Additional discussion is included in Note 8 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2015, we had $501.0 million available under our line of credit. We generally apply excess cash to this line of credit.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2015**	2014	2013
Average balance	**$ 2,844,533**	$ 2,681,579	$ 2,472,797
Average interest rate	**1.5%**	1.4%	1.2%

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from unallocated surplus.

CAPITAL ADEQUACY

Total members' equity increased $61.5 million from December 31, 2014, primarily due to net income for the year and an increase in capital stock and participation certificates, which was partially offset by patronage distribution accruals.

Members' Equity Position Information

(dollars in thousands) As of December 31	Regulatory Minimums	**2015**	2014	2013
Members' equity		**$ 808,450**	$ 746,960	$ 685,549
Surplus as a percentage of members' equity		**98.9%**	98.9%	98.8%
Permanent capital ratio	7.0%	**16.6%**	16.6%	15.5%
Total surplus ratio	7.0%	**16.4%**	16.4%	15.3%
Core surplus ratio	3.5%	**16.4%**	16.4%	15.3%

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.

Additional discussion of these regulatory ratios is included in Note 7 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum permanent capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2015, our optimum permanent capital target range was 13% to 18%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio and Other Investments sections for further discussion of the changes in assets. Additional members' equity information is included in Note 7 to the accompanying Consolidated Financial Statements.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 6 to the accompanying Consolidated Financial Statements, governs this lending relationship.

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

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

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2015, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5% plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. However, AgriBank currently has not communicated a plan to increase the required investment.

In addition, we are required to hold AgriBank stock equal to 8.0% of the quarter end balance in the AgriBank Asset Pool program.

At December 31, 2015, $63.8 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $38.0 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.

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

Patronage

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

- Patronage on our note payable with AgriBank
- Patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program
- Equalization income based on our excess stock or growth required stock investment in AgriBank
- Partnership distribution based on our share of the net earnings of the loans in the AgDirect trade credit financing program, adjusted for required return on capital and servicing and origination fees

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

Purchased Services

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

The total cost of services we purchased from AgriBank was $1.0 million in each of the years 2015, 2014, and 2013, respectively.

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:

Badgerland Financial, ACA
1430 North Ridge Drive
Prairie du Sac, WI 53578
(877) 780-6410
www.badgerlandfinancial.com
Greg.Rufsvold@badgerlandfinancial.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com
financialreporting@agribank.com

Our 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 no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports contact us as stated above.

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

ProPartners Financial: We participate in ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System to provide producer financing for agribusiness companies. ProPartners is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the ProPartners volume. Each association's allocation was established according to a prescribed formula which included risk funds of the associations. We had $108.5 million, $91.1 million, and $79.9 million of ProPartners volume at December 31, 2015, 2014, and 2013, respectively. We also had $155.8 million of available commitment on ProPartners loans at December 31, 2015.

Federal Agricultural Mortgage Corporation: We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Funding and Liquidity section for further discussion of this agreement.

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. 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.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $78 thousand, $78 thousand, and $70 thousand at December 31, 2015, 2014, and 2013, respectively. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations) which involves purchasing human resource information systems, benefit, payroll, and workforce management services. As of December 31, 2015, 2014, and 2013, our investment in Foundations was $35 thousand. The total cost of services we purchased from Foundations was $181 thousand, $165 thousand, and $150 thousand in 2015, 2014, and 2013, respectively.

Unincorporated Business Entities (UBEs)

4 Rivers, LLP: We participate with certain other AgriBank District associations in 4 Rivers, LLP (the LLP), which functions as a negotiating and administrative arm for crop insurance. The LLP negotiates commission and profit share terms with the Approved Insurance Providers (AIP). The value proposition is that the LLP covers a larger geographical area, has more premium volume and offers the AIP potential for a more stable and profitable return.

Each participating association continues to conduct crop insurance business independently within its chartered territory, whereas the LLP is utilized for negotiating contract terms and facilitating the pooling of crop insurance business in a manner which optimizes the value received by the participating associations. As a part of this relationship, our investment in 4 Rivers, LLP was $13 thousand at December 31, 2015, 2014, and 2013.

AgDirect, LLP: We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $10.2 million, $10.1 million, and $9.9 million at December 31, 2015, 2014, and 2013, respectively.

RBF Acquisition VIII, LLC and Choice Ethanol Holdings, LLC: We received an equity interest in RBF Acquisition VIII, LLC, which was formed to facilitate the acquisition, management, and liquidation of assets acquired in 2009 from a troubled ethanol borrower. As of December 31, 2014, all assets of and subsequently our equity interest in RBF Acquisition VIII, LLC were liquidated and dissolved. Choice Ethanol Holdings, LLC (Choice) was created to own the assets of an ethanol plant acquired from a troubled borrower in 2013. All membership interests in Choice were sold via a stock sale in June 2013. After the sale, Choice was subsequently dissolved.

Programs

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

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

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

Farm Cash Management: We offer Farm Cash Management to our 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 participated in the Agriculture and Rural Community (ARC) 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. The FCA Board voted to conclude the program effective December 31, 2014. The Board's action permits each System institution to hold its ARC Bond Program investments through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The ARC Bond Program is part of our mission related investments. These investments will help to increase rural communities' and businesses' well-being and prosperity by providing an adequate flow of capital into rural areas. We had $26.5 million, $34.9 million, and $42.0 million of volume under this program at December 31, 2015, 2014, and 2013, respectively.

REGULATORY MATTERS

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

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

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

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

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

The public comment period ended on October 23, 2014.

REPORT OF MANAGEMENT

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 in the Consolidated Financial Statements.

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

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

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mark W. Cade

Mark Cade
Chairperson of the Board
Badgerland Financial, ACA

Diane M Cole

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory Rufsvold

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

March 10, 2016

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, 2015. In making the assessment, management used the 2013 framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2015.

Diane M Cole

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory Rufsvold

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

March 10, 2016

REPORT OF AUDIT COMMITTEE

Badgerland Financial, ACA

[NOTE: Need to review with association audit committee information below and modify as necessary]

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 actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

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

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2015, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

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

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2015.

Gregory Pollesch
Chairperson of the Audit Committee
Badgerland Financial, ACA

Members of the audit committee include:
Mark Cade
Ken Congdon
Dean Dorn
Gregory Pollesch
Max Weiss
Dan Zimmerman

March 10, 2016

pwc

Independent Auditor's Report

To the Board of Directors 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, 2015, 2014 and 2013, 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 as of December 31, 2015, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 10, 2016

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		2015		2014		2013
ASSETS						
Loans	**$**	**3,776,123**	$	3,414,943	$	3,232,452
Allowance for loan losses		**11,600**		9,378		2,740
Net loans		**3,764,523**		3,405,565		3,229,712
Investment in AgriBank, FCB		**101,777**		96,807		101,016
Accrued interest receivable		**20,197**		18,636		16,946
Other property owned		**307**		782		1,293
Other investments		**7,938**		6,725		4,250
Other assets		**46,362**		45,961		41,974
Total assets	**$**	**3,941,104**	$	3,574,476	$	3,395,191
LIABILITIES						
Note payable to AgriBank, FCB	**$**	**3,090,800**	$	2,787,000	$	2,672,686
Accrued interest payable		**11,391**		9,480		8,436
Deferred tax liabilities, net		**513**		1,053		2,154
Patronage distribution payable		**13,500**		13,000		9,550
Other liabilities		**16,450**		16,983		16,816
Total liabilities		**3,132,654**		2,827,516		2,709,642
Contingencies and commitments (Note 11)						
MEMBERS' EQUITY						
Capital stock and participation certificates		**8,527**		8,345		8,151
Unallocated surplus		**799,923**		738,615		677,398
Total members' equity		**808,450**		746,960		685,549
Total liabilities and members' equity	**$**	**3,941,104**	$	3,574,476	$	3,395,191

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA

(in thousands)

For the year ended December 31	2015	2014	2013
Interest income	**$ 137,300**	$ 130,323	$ 121,220
Interest expense	**42,006**	36,359	30,870
Net interest income	**95,294**	93,964	90,350
Provision for (reversal of) loan losses	**2,666**	7,962	(772)
Net interest income after provision for (reversal of) loan losses	**92,628**	86,002	91,122
Other income			
Patronage income	**19,939**	22,393	22,268
Financially related services income	**12,799**	11,803	11,341
Fee income	**4,805**	4,149	4,988
Miscellaneous (loss) income, net	**(25)**	1,289	(1,246)
Total other income	**37,518**	39,634	37,351
Operating expenses			
Salaries and employee benefits	**35,081**	33,599	32,592
Other operating expenses	**20,792**	18,914	17,495
Total operating expenses	**55,873**	52,513	50,087
Income before income taxes	**74,273**	73,123	78,386
Benefit from income taxes	**(535)**	(1,094)	(267)
Net income	**$ 74,808**	$ 74,217	$ 78,653

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 as of December 31, 2012	$ 7,852	$ 608,296	$ 616,148
Net income	--	78,653	78,653
Unallocated surplus designated for patronage distributions	--	(9,551)	(9,551)
Capital stock and participation certificates issued	967	--	967
Capital stock and participation certificates retired	(668)	--	(668)
Balance as of December 31, 2013	8,151	677,398	685,549
Net income	--	74,217	74,217
Unallocated surplus designated for patronage distributions	--	(13,000)	(13,000)
Capital stock and participation certificates issued	763	--	763
Capital stock and participation certificates retired	(569)	--	(569)
Balance as of December 31, 2014	8,345	738,615	746,960
Net income	**--**	**74,808**	**74,808**
Unallocated surplus designated for patronage distributions	**--**	**(13,500)**	**(13,500)**
Capital stock and participation certificates issued	**767**	**--**	**767**
Capital stock and participation certificates retired	**(585)**	**--**	**(585)**
Balance as of December 31, 2015	**$ 8,527**	**$ 799,923**	**$ 808,450**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Badgerland Financial, ACA

(in thousands)

For the year ended December 31	**2015**	2014	2013
Cash flows from operating activities			
Net income	**$ 74,808**	$ 74,217	$ 78,653
Depreciation on premises and equipment	**2,299**	2,036	2,053
Gain on sale of premises and equipment	**(133)**	(739)	(315)
Amortization of premiums on loans	**--**	117	134
Provision for (reversal of) loan losses	**2,666**	7,962	(772)
Stock patronage received from AgriBank, FCB	**--**	(1,906)	(3,925)
(Gain) loss on other property owned	**92**	(481)	936
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(1,908)**	(1,855)	(3,414)
Decrease (Increase) in other assets	**1,072**	1,137	(293)
Increase in accrued interest payable	**1,911**	1,044	1,309
(Decrease) increase in other liabilities	**(1,073)**	(934)	3,516
Net cash provided by operating activities	**79,734**	80,598	77,882
Cash flows from investing activities			
Increase in loans, net	**(361,204)**	(183,885)	(380,163)
(Purchases) redemptions of investment in AgriBank, FCB, net	**(4,970)**	6,107	(3,116)
Purchases of investment in other Farm Credit Institutions, net	**(161)**	(221)	(1,893)
Increase in investment securities, net	**(1,213)**	(2,475)	(1,015)
Sales of assets held for lease, net	**--**	1,486	4,772
Proceeds from sales of other property owned	**668**	(6,192)	(2,534)
Purchases of premises and equipment, net	**(3,478)**	--	--
Net cash used in investing activities	**(370,358)**	(185,180)	(383,949)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**303,800**	114,314	315,258
Patronage distributions paid	**(13,000)**	(9,550)	(9,001)
Capital stock and participation certificates retired, net	**(176)**	(182)	(190)
Net cash provided by financing activities	**290,624**	104,582	306,067
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	**$ 761**	$ 749	$ 959
Stock applied against loan principal	**403**	373	470
Interest transferred to loans	**347**	165	393
Loans transferred to other property owned	**285**	494	3,337
Patronage distributions payable to members	**13,500**	13,000	9,550
Supplemental information			
Interest paid	**$ 40,095**	$ 35,315	$ 29,561
Taxes paid	**20**	(1,013)	(1,267)

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

Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2016, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 74 customer-owned cooperative lending institutions (associations). AgriBank, 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 January 1, 2016, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

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

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

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

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

Association

Badgerland Financial, ACA (the Association) and its subsidiaries, Badgerland Financial, FLCA and Badgerland Financial, PCA (subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible 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 offer credit life, term life, credit disability, crop hail, multi-peril crop, and livestock gross margin insurance to borrowers and those eligible to borrow. We also offer farm records, fee appraisals, income tax planning and preparation services, retirement and succession planning, producer education services, and access to commodity price hedging 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. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements taken as a whole.

Generally we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below).

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

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

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans.

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

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

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for (reversal of) loan losses" in the Consolidated Statements of Income, recoveries, and charge-offs.

Investment in AgriBank: Our stock investment in AgriBank is on a cost plus allocated equities basis.

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

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation and is included in "Other assets" in the Consolidated Statements of Condition. 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" in the Consolidated Statements of Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in 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 the fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Miscellaneous (loss) income, net" in the Consolidated Statements of Income.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans are included in "Salaries and employee benefits" in the Consolidated Statements of Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

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

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match.

Income Taxes: The ACA and PCA accrue federal and 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.

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

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

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

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

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

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

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

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our Consolidated Financial Statements. Except as noted below, no accounting pronouncements were adopted during 2015.

In January 2016, the FASB issued guidance entitled, "Recognition and Measurement of Financial Assets and Financial Liabilities." The guidance is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial statements. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods with annual periods beginning after December 15,

2019. Certain disclosure changes are permitted to be immediately adopted for annual reporting periods that have not yet been made available for issuance. Nonpublic entities are no longer required to include certain fair value of financial instruments disclosures as part of these disclosure changes. We have immediately adopted this guidance and have excluded such disclosures from our Notes to Consolidated Financial Statements. Early adoption is only permitted for interim and annual reporting periods beginning after December 15, 2017 for other applicable sections of the guidance. We are currently evaluating the impact of the remaining guidance on our financial condition, results of operations, cash flows, or financial statement disclosures.

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

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. We are in the process of reviewing contracts to determine the effect, if any, on our financial condition or our results of operations.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

(in thousands) As of December 31, 2014	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 2,054,506	$ (140,867)	$ 1,913,639
Production and intermediate term	864,969	(13,747)	851,222
Agribusiness	307,623	103,390	411,013
Other	187,845	51,224	239,069
Total	$ 3,414,943	$ --	$ 3,414,943

As of December 31, 2013	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 1,917,174	$ (88,189)	$ 1,828,985
Production and intermediate term	872,465	(8,006)	864,459
Agribusiness	260,812	50,549	311,361
Other	182,001	45,646	227,647
Total	$ 3,232,452	$ --	$ 3,232,452

Loans by Type

(dollars in thousands)	**2015**		2014		2013	
As of December 31	Amount	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 2,114,613**	**55.9%**	$ 1,913,639	56.1%	$ 1,828,985	56.7%
Production and intermediate term	**908,557**	**24.1%**	851,222	24.9%	864,459	26.7%
Agribusiness	**485,616**	**12.9%**	411,013	12.0%	311,361	9.6%
Other	**267,337**	**7.1%**	239,069	7.0%	227,647	7.0%
Total	**$ 3,776,123**	**100.0%**	$ 3,414,943	100.0%	$ 3,232,452	100.0%

The other category is primarily comprised of communication, rural residence related, international, and energy loans as well as loans originated under our mission related investment authority.

Portfolio Concentrations

We have borrower, agricultural, and geographic concentrations.

As of December 31, 2015, volume plus commitments to our ten largest borrowers totaled an amount equal to 6.1% of total loans and commitments.

Agricultural Concentrations

As of December 31	**2015**	2014	2013
Crops	**32.2%**	33.2%	33.6%
Dairy	**30.4%**	30.0%	30.7%
Livestock	**8.0%**	8.5%	9.3%
Rural home	**6.6%**	7.2%	7.5%
Farm supplies	**3.4%**	4.0%	4.0%
Rural utilities	**3.8%**	3.6%	3.5%
Ethanol	**1.5%**	1.3%	1.0%
Other	**14.1%**	12.2%	10.4%
Total	**100.0%**	100.0%	100.0%

We are chartered to serve certain counties in Wisconsin. Approximately 13.2% of our total loan portfolio was in Dane, Fond Du Lac, and Adams counties at December 31, 2015.

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

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the FCA Regulations or General Financing Agreement (GFA) limitations.

Participations Purchased and Sold

(in thousands)	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2015	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (434,812)**	**$ 134,452**	**$ (12,975)**	**$ 172,484**	**$ --**	**$ 306,936**	**$ (447,787)**
Production and intermediate term	**--**	**(2,465)**	**107,920**	**(6,751)**	**19,150**	**--**	**127,070**	**(9,216)**
Agribusiness	**--**	**(27,710)**	**358,315**	**--**	**39,391**	**--**	**397,706**	**(27,710)**
Other	**--**	**(5,878)**	**183,749**	**--**	**--**	**--**	**183,749**	**(5,878)**
Total	**$ --**	**$ (470,865)**	**$ 784,436**	**$ (19,726)**	**$ 231,025**	**$ --**	**$ 1,015,461**	**$ (490,591)**

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2014	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (450,745)	$ 108,622	$ (13,983)	$ 154,008	$ --	$ 262,630	$ (464,728)
Production and intermediate term	--	(9,231)	90,374	(6,881)	12,676	--	103,050	(16,112)
Agribusiness	--	(27,693)	300,271	(14,400)	44,655	--	344,926	(42,093)
Other	--	(5,386)	165,746	--	--	--	165,746	(5,386)
Total	$ --	$ (493,055)	$ 665,013	$ (35,264)	$ 211,339	$ --	$ 876,352	$ (528,319)

As of December 31, 2013	AgriBank Participations Purchased	AgriBank Participations Sold	Other Farm Credit Institutions Participations Purchased	Other Farm Credit Institutions Participations Sold	Non-Farm Credit Institutions Participations Purchased	Non-Farm Credit Institutions Participations Sold	Total Participations Purchased	Total Participations Sold
Real estate mortgage	$ --	$ (448,737)	$ 137,915	$ (15,731)	$ 149,960	$ --	$ 287,875	$ (464,468)
Production and intermediate term	--	(5,598)	92,030	(14,547)	15,928	--	107,958	(20,145)
Agribusiness	--	(6,958)	216,986	(3,600)	39,572	--	256,558	(10,558)
Other	--	(5,464)	151,479	--	--	--	151,479	(5,464)
Total	$ --	$ (466,757)	$ 598,410	$ (33,878)	$ 205,460	$ --	$ 803,870	$ (500,635)

Information in the preceding chart excludes loans entered into under our mission related investment authority.

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable: loans are expected to be fully collectible and represent the highest quality
- Other assets especially mentioned (OAEM): loans are currently collectible but exhibit some potential weakness
- Substandard: loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan
- Doubtful: loans exhibit similar weaknesses to substandard loans; however, doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable
- Loss: loans are considered uncollectible

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

Credit Quality of Loans

(dollars in thousands)

As of December 31, 2015	Acceptable Amount	%	OAEM Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	**$ 2,009,821**	**94.6%**	**$ 53,640**	**2.5%**	**$ 62,097**	**2.9%**	**$ 2,125,558**	**100.0%**
Production and intermediate term	**879,754**	**96.0%**	**16,214**	**1.8%**	**19,718**	**2.2%**	**915,686**	**100.0%**
Agribusiness	**468,464**	**96.2%**	**12,068**	**2.5%**	**6,382**	**1.3%**	**486,914**	**100.0%**
Other	**263,382**	**98.2%**	**4,081**	**1.5%**	**699**	**0.3%**	**268,162**	**100.0%**
Total	**$ 3,621,421**	**95.4%**	**$ 86,003**	**2.3%**	**$ 88,896**	**2.3%**	**$ 3,796,320**	**100.0%**

As of December 31, 2014	Acceptable Amount	%	OAEM Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 1,831,703	95.2%	$ 45,878	2.4%	$ 46,309	2.4%	$ 1,923,890	100.0%
Production and intermediate term	817,693	95.3%	16,956	2.0%	23,092	2.7%	857,741	100.0%
Agribusiness	405,465	98.3%	2,004	0.5%	4,864	1.2%	412,333	100.0%
Other	234,706	97.9%	3,505	1.5%	1,404	0.6%	239,615	100.0%
Total	$ 3,289,567	95.8%	$ 68,343	2.0%	$ 75,669	2.2%	$ 3,433,579	100.0%

As of December 31, 2013	Acceptable Amount	%	OAEM Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 1,767,158	96.1%	$ 26,854	1.5%	$ 44,129	2.4%	$ 1,838,141	100.0%
Production and intermediate term	827,901	95.1%	24,564	2.8%	18,405	2.1%	870,870	100.0%
Agribusiness	297,591	95.3%	9,273	3.0%	5,251	1.7%	312,115	100.0%
Other	214,371	93.9%	12,932	5.7%	969	0.4%	228,272	100.0%
Total	$ 3,107,021	95.6%	$ 73,623	2.3%	$ 68,754	2.1%	$ 3,249,398	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands)

As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
Real estate mortgage	**$ 4,079**	**$ 3,015**	**$ 7,094**	**$ 2,118,464**	**$ 2,125,558**	**$ 688**
Production and intermediate term	**1,532**	**2,774**	**4,306**	**911,380**	**915,686**	**23**
Agribusiness	**--**	**3,802**	**3,802**	**483,112**	**486,914**	**--**
Other	**77**	**--**	**77**	**268,085**	**268,162**	**--**
Total	**$ 5,688**	**$ 9,591**	**$ 15,279**	**$ 3,781,041**	**$ 3,796,320**	**$ 711**

As of December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
Real estate mortgage	$ 9,835	$ 2,155	$ 11,990	$ 1,911,900	$ 1,923,890	$ 142
Production and intermediate term	4,757	590	5,347	852,394	857,741	107
Agribusiness	--	--	--	412,333	412,333	--
Other	151	655	806	238,809	239,615	--
Total	$ 14,743	$ 3,400	$ 18,143	$ 3,415,436	$ 3,433,579	$ 249

As of December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
Real estate mortgage	$ 6,035	$ 2,886	$ 8,921	$ 1,829,220	$ 1,838,141	$ 890
Production and intermediate term	3,046	549	3,595	867,275	870,870	138
Agribusiness	--	1	1	312,114	312,115	1
Other	1,635	53	1,688	226,584	228,272	--
Total	$ 10,716	$ 3,489	$ 14,205	$ 3,235,193	$ 3,249,398	$ 1,029

Risk Loans

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

Risk Loan Information

(in thousands)

As of December 31	**2015**	2014	2013
Nonaccrual loans:			
Current as to principal and interest	**$ 8,380**	$ 6,365	$ 6,077
Past due	**9,264**	5,167	2,981
Total nonaccrual loans	**17,644**	11,532	9,058
Accruing restructured loans	**608**	56	4
Accruing loans 90 days or more past due	**711**	249	1,029
Total risk loans	**$ 18,963**	$ 11,837	$ 10,091
Volume with specific reserves	**$ 6,566**	$ 2,519	$ 184
Volume without specific reserves	**12,397**	9,318	9,907
Total risk loans	**$ 18,963**	$ 11,837	$ 10,091
Total specific reserves	**$ 1,985**	$ 874	$ 147

For the year ended December 31	**2015**	2014	2013
Income on accrual risk loans	**$ 107**	$ 68	$ 244
Income on nonaccrual loans	**512**	562	771
Total income on risk loans	**$ 619**	$ 630	$ 1,015
Average recorded risk loans	**$ 18,415**	$ 12,917	$ 15,290

The increase in nonaccrual loans was due primarily to several loans within our portion of the ProPartners Financial alliance portfolio moving to nonaccrual as well as the transfer of a large participation loan to nonaccrual. Nonaccrual loans remained at an acceptable level at December 31, 2015, 2014, and 2013 and 47.5%, 55.2%, and 67.1% of our nonaccrual loans were current at December 31, 2015, 2014, and 2013, respectively.

The increase in accruing restructured loans was primarily due to a transfer of a production and intermediate term loan in the amount of $353 thousand, as of December 31, 2015, to accruing restructured status during the first quarter of 2015 and a transfer of a real estate mortgage loan of $246 thousand, as of December 31, 2015, to accruing restructured status during the second quarter of 2015.

The increase in accruing loans 90 days or more past due was primarily due to an increase in delinquent loans in the production and intermediate term category and due to several loans within our portion of the ProPartners Financial alliance portfolio becoming past due for 90 days or more. 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.

Nonaccrual Loans by Loan Type

(in thousands) As of December 31	**2015**	2014	2013
Real estate mortgage	**$ 8,377**	$ 7,660	$ 7,809
Production and intermediate term	**3,494**	2,900	849
Agribusiness	**5,486**	--	--
Other	**287**	972	400
Total	**$ 17,644**	$ 11,532	$ 9,058

Accruing Loans 90 Days or More Past Due by Loan Type

(in thousands) As of December 31	**2015**	2014	2013
Real estate mortgage	**$ 688**	$ 142	$ 890
Production and intermediate term	**23**	107	138
Agribusiness	**--**	--	1
Total	**$ 711**	$ 249	$ 1,029

All loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Additional Impaired Loan Information by Loan Type

(in thousands)	**As of December 31, 2015**			**For the year ended December 31, 2015**	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Production and intermediate term	**$ 2,198**	**$ 2,378**	**$ 978**	**$ 3,217**	**$ --**
Agribusiness	**4,368**	**4,500**	**1,007**	**1,264**	**--**
Total	**$ 6,566**	**$ 6,878**	**$ 1,985**	**$ 4,481**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 9,310**	**$ 10,204**	**$ --**	**$ 10,474**	**$ 435**
Production and intermediate term	**1,681**	**3,210**	**--**	**2,460**	**90**
Agribusiness	**1,118**	**2,075**	**--**	**422**	**90**
Other	**288**	**404**	**--**	**578**	**4**
Total	**$ 12,397**	**$ 15,893**	**$ --**	**$ 13,934**	**$ 619**
Total impaired loans:					
Real estate mortgage	**$ 9,310**	**$ 10,204**	**$ --**	**$ 10,474**	**$ 435**
Production and intermediate term	**3,879**	**5,588**	**978**	**5,677**	**90**
Agribusiness	**5,486**	**6,575**	**1,007**	**1,686**	**90**
Other	**288**	**404**	**--**	**578**	**4**
Total	**$ 18,963**	**$ 22,771**	**$ 1,985**	**$ 18,415**	**$ 619**

	As of December 31, 2014			For the year ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 79	$ 80	$ 4	$ 86	$ --
Production and intermediate term	1,985	2,193	665	2,010	--
Other	455	945	205	882	--
Total	$ 2,519	$ 3,218	$ 874	$ 2,978	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 7,723	$ 8,677	$ --	$ 8,400	$ 551
Production and intermediate term	1,078	2,073	--	1,092	34
Agribusiness	--	902	--	--	43
Other	517	619	--	447	2
Total	$ 9,318	$ 12,271	$ --	$ 9,939	$ 630
Total impaired loans:					
Real estate mortgage	$ 7,802	$ 8,757	$ 4	$ 8,486	$ 551
Production and intermediate term	3,063	4,266	665	3,102	34
Agribusiness	--	902	--	--	43
Other	972	1,564	205	1,329	2
Total	$ 11,837	$ 15,489	$ 874	$ 12,917	$ 630

	As of December 31, 2013			For the year ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ --	$ --	$ --	$ 441	$ --
Production and intermediate term	184	234	147	765	--
Other	--	--	--	1,332	--
Total	$ 184	$ 234	$ 147	$ 2,538	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 8,699	$ 9,677	$ --	$ 8,229	$ 681
Production and intermediate term	808	1,881	--	3,361	243
Agribusiness	1	902	--	494	25
Other	399	571	--	668	66
Total	$ 9,907	$ 13,031	$ --	$ 12,752	$ 1,015
Total impaired loans:					
Real estate mortgage	$ 8,699	$ 9,677	$ --	$ 8,670	$ 681
Production and intermediate term	992	2,115	147	4,126	243
Agribusiness	1	902	--	494	25
Other	399	571	--	2,000	66
Total	$ 10,091	$ 13,265	$ 147	$ 15,290	$ 1,015

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

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2015.

Troubled Debt Restructurings

Included within our loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

TDR Activity

(in thousands)	2015		2014		2013	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 186**	**$ 250**	$ 175	$ 175	$ 4	$ 4
Production and intermediate term	**948**	**575**	103	102	--	--
Agribusiness	**4,505**	**4,506**	--	--	--	--
Total	**$ 5,639**	**$ 5,331**	$ 278	$ 277	$ 4	$ 4

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

The primary types of modification included forgiveness of principal, extension of maturity, and deferral of principal.

TDRs that Subsequently Defaulted within the Previous 12 Months

(in thousands)	2015	2014	2013
Production and intermediate term	**$ 16**	$ --	$ --
Agribusiness	**3,501**	--	--
Total	**$ 3,517**	$ --	$ --

TDRs Outstanding

(in thousands) As of December 31	2015	2014	2013
Accrual status:			
Real estate mortgage	**$ 246**	$ --	$ --
Production and intermediate term	**362**	56	4
Total TDRs in accrual status	**$ 608**	$ 56	$ 4
Nonaccrual status:			
Real estate mortgage	**$ 277**	$ 313	$ 170
Production and intermediate term	**244**	191	260
Agribusiness	**4,368**	--	--
Total TDRs in nonaccrual status	**$ 4,889**	$ 504	$ 430
Total TDRs:			
Real estate mortgage	**$ 523**	$ 313	$ 170
Production and intermediate term	**606**	247	264
Agribusiness	**4,368**	--	--
Total TDRs	**$ 5,497**	$ 560	$ 434

There were no additional commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2015.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	2015	2014	2013
Balance at beginning of year	**$ 9,378**	$ 2,740	$ 4,540
Provision for (reversal of) loan losses	**2,666**	7,962	(772)
Loan recoveries	**741**	136	119
Loan charge-offs	**(1,185)**	(1,460)	(1,147)
Balance at end of year	**$ 11,600**	$ 9,378	$ 2,740

The increase in allowance for loan losses is related to $2.7 million provision expense recorded in 2015 as a result of changes in loss estimates and specific reserves in the portfolio

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

(in thousands)	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2014	**$ 4,214**	**$ 3,763**	**$ 969**	**$ 432**	**$ 9,378**
(Reversal of) provision for loan losses	**(3,031)**	**1,811**	**4,288**	**(402)**	**2,666**
Loan recoveries	**--**	**344**	**--**	**397**	**741**
Loan charge-offs	**(15)**	**(1,161)**	**(9)**	**--**	**(1,185)**
Balance as of December 31, 2015	**$ 1,168**	**$ 4,757**	**$ 5,248**	**$ 427**	**$ 11,600**
Ending balance: individually evaluated for impairment	**$ --**	**$ 978**	**$ 1,007**	**$ --**	**$ 1,985**
Ending balance: collectively evaluated for impairment	**$ 1,168**	**$ 3,779**	**$ 4,241**	**$ 427**	**$ 9,615**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2015	**$ 2,125,558**	**$ 915,686**	**$ 486,914**	**$ 268,162**	**$ 3,796,320**
Ending balance: individually evaluated for impairment	**$ 9,310**	**$ 3,879**	**$ 5,486**	**$ 288**	**$ 18,963**
Ending balance: collectively evaluated for impairment	**$ 2,116,248**	**$ 911,807**	**$ 481,428**	**$ 267,874**	**$ 3,777,357**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2013	$ 431	$ 1,316	$ 808	$ 185	$ 2,740
Provision for loan losses	3,961	2,746	161	1,094	7,962
Loan recoveries	3	130	--	3	136
Loan charge-offs	(181)	(429)	--	(850)	(1,460)
Balance as of December 31, 2014	$ 4,214	$ 3,763	$ 969	$ 432	$ 9,378
Ending balance: individually evaluated for impairment	$ 4	$ 665	$ --	$ 205	$ 874
Ending balance: collectively evaluated for impairment	$ 4,210	$ 3,098	$ 969	$ 227	$ 8,504
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2014	$ 1,923,890	$ 857,741	$ 412,333	$ 239,615	$ 3,433,579
Ending balance: individually evaluated for impairment	$ 7,802	$ 3,063	$ --	$ 972	$ 11,837
Ending balance: collectively evaluated for impairment	$ 1,916,088	$ 854,678	$ 412,333	$ 238,643	$ 3,421,742

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2012	$ 1,588	$ 1,670	$ 449	$ 833	$ 4,540
(Reversal of) provision for loan losses	(1,232)	(175)	359	276	(772)
Loan recoveries	98	19	2	--	119
Loan charge-offs	(23)	(198)	(2)	(924)	(1,147)
Balance as of December 31, 2013	$ 431	$ 1,316	$ 808	$ 185	$ 2,740
Ending balance: individually evaluated for impairment	$ --	$ 147	$ --	$ --	$ 147
Ending balance: collectively evaluated for impairment	$ 431	$ 1,169	$ 808	$ 185	$ 2,593
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2013	$ 1,838,141	$ 870,870	$ 312,115	$ 228,272	$ 3,249,398
Ending balance: individually evaluated for impairment	$ 8,699	$ 992	$ 1	$ 399	$ 10,091
Ending balance: collectively evaluated for impairment	$ 1,829,442	$ 869,878	$ 312,114	$ 227,873	$ 3,239,307

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

NOTE 4: INVESTMENT IN AGRIBANK

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

As of December 31, 2015, we were also required by AgriBank to maintain an investment equal to 8.0% of the quarter end balance of the participation interests in real estate loans sold to AgriBank under the AgriBank Asset Pool program.

The balance of our investment in AgriBank, all required stock, was $101.8 million, $96.8 million, and $101.0 million at December 31, 2015, 2014, and 2013, respectively.

NOTE 5: OTHER INVESTMENTS

We hold non-controlling investments in venture capital equity funds of $7.9 million, $6.7 million, and $4.3 million at December 31, 2015, 2014, and 2013, respectively. These investments represent our stake in two venture capital equity funds focused on the needs of rural start-up companies. Our $5.0 million commitment to these venture capital equity funds began in 2008 and was initially over a period of ten years. In 2013, we committed an additional $5.0 million over a period of ten years. We are a limited partner in the funds and these investments are valued at cost. Our remaining commitment to the funds at December 31, 2015 was $1.8 million through December 2018.

The investments were evaluated for impairment. During the year ended December 31, 2013, $385 thousand of impairment was recognized on these investments. No impairments were recognized on these investments during 2015 or 2014. During the year ended December 31, 2015, we have received $237 thousand in distributions from the funds. We did not receive any distributions during the years ended December 31, 2014 or 2013.

NOTE 6: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral.

Note Payable Information

(dollars in thousands) As of December 31	**2015**	2014	2013
Line of credit	**$ 3,600,000**	$ 3,450,000	$ 3,250,000
Outstanding principal under the line of credit	**3,090,800**	2,787,000	2,672,686
Interest rate	**1.5%**	1.4%	1.3%

Our note payable matures August 31, 2016, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2015, and throughout the year, we materially complied with the GFA terms and were not declared in default under any GFA covenants or provisions.

NOTE 7: 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, the 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 services. 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 or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Select Capital Ratios

As of December 31	Regulatory Minimums	**2015**	2014	2013
Permanent capital ratio	7.0%	**16.6%**	16.6%	15.5%
Total surplus ratio	7.0%	**16.4%**	16.4%	15.3%
Core surplus ratio	3.5%	**16.4%**	16.4%	15.3%

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

Regulatory capital includes any investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. We had no excess stock at December 31, 2015, 2014, or 2013.

Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

	Number of Shares		
As of December 31	**2015**	2014	2013
Class B common stock (at-risk)	**1,662,512**	1,623,646	1,585,189
Class E participation certificates (at-risk)	**41,856**	45,294	44,945

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, 2015, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.
In the event of our liquidation or dissolution, according to our bylaws, any 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 $13.5 million, $13.0 million, and $9.6 million at December 31, 2015, 2014, and 2013, 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.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2016.

NOTE 8: INCOME TAXES

Benefit from Income Taxes

Benefit from Income Taxes

(dollars in thousands)

For the year ended December 31	**2015**	2014	2013
Current:			
Federal	**$ 5**	$ 7	$ --
Total current	**$ 5**	$ 7	$ --
Deferred:			
Federal	**$ (449)**	$ (829)	$ (174)
State	**(91)**	(272)	(93)
Total deferred	**(540)**	(1,101)	(267)
Benefit from income taxes	**$ (535)**	$ (1,094)	$ (267)
Effective tax rate	**(0.7%)**	(1.5%)	(0.3%)

Reconciliation of Taxes at Federal Statutory Rate to Benefit from Income Taxes

(in thousands) For the year ended December 31	2015	2014	2013
Federal tax at statutory rates	**$ 25,253**	$ 24,862	$ 27,436
State tax, net	**(44)**	(108)	(5)
Patronage distributions	**(1,252)**	(1,955)	(2,870)
Effect of non-taxable entity	**(24,286)**	(23,614)	(24,597)
Other	**(206)**	(279)	(231)
Benefit from income taxes	**$ (535)**	$ (1,094)	$ (267)

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

(in thousands) As of December 31	2015	2014	2013
Allowance for loan losses	**$ 1,527**	$ 1,335	$ 449
Postretirement benefit accrual	**894**	891	896
Accrued patronage income not received	**(169)**	(255)	(345)
AgriBank 2002 allocated stock	**(1,221)**	(1,221)	(1,221)
Accrued pension asset	**(1,825)**	(1,839)	(1,738)
Depreciation	**--**	--	(77)
Other assets	**685**	424	270
Other liabilities	**(404)**	(388)	(388)
Total deferred tax liabilities	**(513)**	(1,053)	(2,154)
Deferred tax liabilities, net	**$ (513)**	$ (1,053)	$ (2,154)
Gross deferred tax assets	**$ 3,106**	$ 2,650	$ 1,615
Gross deferred tax liabilities	**$ (3,619)**	$ (3,703)	$ (3,769)

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

We have not provided for deferred income taxes on 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. Our total permanent investment in AgriBank is $39.7 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $604.4 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 United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2015. In addition, we believe we are no longer subject to income tax examinations for years prior to 2012.

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank and affiliated Associations 2015 Annual Report (District financial statements).

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

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

AgriBank District Retirement Plan Information

(in thousands)

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

For the year ended December 31	**2015**	2014	2013
Total plan expense	**$ 63,800**	$ 45,827	$ 63,270
Our allocated share of plan expenses	**3,927**	3,120	4,129
Contributions by participating employers	**62,722**	52,032	59,046
Our allocated share of contributions	**3,858**	3,546	3,850

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Income.

The plan expense for participating employers in 2015 increased to levels more consistent with 2013 primarily due to changes in discount rate and mortality assumptions. Benefits paid to participants in the District were $56.2 million in 2015. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plans during 2016 is $57.9 million. Our allocated share of these pension contributions is expected to be $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 plans. The anticipated costs of these benefits are accrued during the period of the employee's active status.

Retiree Medical Plan Information

(in thousands)

For the year ended December 31	**2015**	2014	2013
Postretirement benefit expense	**$ 109**	$ 67	$ 85
Our cash contributions	**93**	92	89

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

Defined Contribution Plans

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Income, were $1.4 million, $1.3 million, and $1.2 million in 2015, 2014, and 2013, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2015 involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands)		**2015**		2014		2013
As of December 31:						
Total related party loans	**$**	**64,556**	$	71,247	$	52,706
For the year ended December 31:						
Advances to related parties	**$**	**31,763**	$	42,304	$	15,120
Repayments by related parties		**40,106**		64,990		36,314

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

As discussed in Note 6, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio.

We purchase various services from AgriBank including certain financial and retail systems, financial reporting services, tax reporting services, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $1.0 million for the each of the years 2015, 2014, and 2013.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2015, 2014, and 2013, our investment in Foundations was $35 thousand. The total cost of services purchased from Foundations was $181 thousand, $165 thousand, and $150 thousand in 2015, 2014, and 2013, respectively.

NOTE 11: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments which may not be reflected in the accompanying Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2015, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $1.1 billion. Additionally, we had $11.6 million of issued standby letters of credit as of December 31, 2015. Refer to Note 12 for additional discussion regarding standby letters of credit included in the Consolidated Statements of Condition.

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

We hold non-controlling investments in venture capital equity funds. Refer to Note 5 for additional discussion regarding this commitment.

NOTE 12: FAIR VALUE MEASUREMENTS

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

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2015, 2014, or 2013.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

As of December 31, 2015	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total (Losses) Gains
Impaired loans	**$ --**	**$ 4,721**	**$ 89**	**$ 4,810**	**$ (2,296)**
Other property owned	**--**	**--**	**319**	**319**	**(92)**

As of December 31, 2014	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total (Losses) Gains
Impaired loans	$ --	$ 1,703	$ 24	$ 1,727	$ (2,187)
Other property owned	--	--	813	813	481

As of December 31, 2013	Fair Value Measurement Using				
	Level 1	Level 2	Level 3	Total Fair Value	Total Gains (Losses)
Impaired loans	$ --	$ 27	$ 12	$ 39	$ 582
Other property owned	--	--	1,345	1,345	(936)

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they fall under Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

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

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 10, 2016, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2015 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Badgerland Financial, ACA

(Unaudited)

Description of Business

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

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

Description of Property

Property Information

Location	Description	Usage
Arcadia	Owned	Branch
Baraboo	Owned	Branch
Beaver Dam	Owned	Branch
Burlington	Owned	Branch
Chilton	Owned	Branch
Darlington	Leased	Contact Point
Dodgeville	Owned	Branch
Fond du Lac	Owned	Branch
Janesville	Owned	Branch
Lancaster	Owned	Branch
Mondovi	Owned	Branch
Monroe	Leased	Branch
Mt. Horeb	Leased	Contact Point
Plymouth	Owned	Branch
Prairie du Sac	Owned	Corporate Headquarters
Sparta	Owned	Branch
Sun Prairie	Owned	Branch
Viroqua	Leased	Branch
Watertown	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Notes 11 to the accompanying Consolidated Financial Statements. We were not subject to any enforcement actions as of December 31, 2015.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 7 to the accompanying Consolidated Financial Statements.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9, and 11 to the accompanying Consolidated Financial Statements.

Selected Financial Data

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

Management’s Discussion and Analysis

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

Board of Directors

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

- The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of the outside auditors, 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.
- The **Compensation Committee** oversees and provides overall direction and/or recommendations for compensation, benefits, and human resource performance management programs.

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

Name	Term	Principal Occupation and Other Affiliations
Mark Cade Chairperson Service Began: April 2006	April 2015-2018	**Principal Occupation:** Self-employed dairy and grain farmer
Rick Carlson Director Service Began: April 2015	April 2015-2018	**Principal Occupation:** Self-employed farmer
Ken Congdon Director Service Began: April 2011	April 2014-2017	**Principal Occupation:** President of Scotch Prairie Farm, Inc., a grain farming operation
Dean Dorn Director Service Began: April 2013	April 2013-2016	**Principal Occupation:** Self-employed dairy farmer
Timothy Evert Vice Chairperson Service Began: April 2010	April 2013-2016	**Principal Occupation:** Partner in United Dreams Dairy LLC President of Evert Farms Inc
Sandra Larson Director Service Began: April 2014	April 2014-2017	**Principal Occupation:** Owner of Larson Acres Inc., a dairy farming operation **Other Affiliations:** Director: Rock County Dairy Promotion President of the Board: WI Veterinary Diagnostics Lab
Donald Leix Director Service Began: April 2014	April 2014-2017	**Principal Occupation:** Self-employed dairy and crop farmer. Secretary/Treasurer of Leix Farms Inc., a family dairy and crop farming operation
John Manske Outside Director Service Began: April 2002	April 2014-2017	**Principal Occupation:** Director of Government Relations for Cooperative Network, a multi-state trade association
Lori Meinholz Director Service Began: April 1997	April 2015-2018	**Principal Occupation:** Partner of Blue Star Dairy Farms, a dairy farming operation
Gregory Pollesch, CPA Outside Director Audit Committee Chairperson Service Began: April 2007	April 2013-2016	**Principal Occupation:** Director and Chief Financial Officer for Galloway Company, a sweetened condensed milk and ice cream mix manufacturer (President beginning January 2016) **Other Affiliations:** Director for WI Dairy Products Association, and industry trade group
Jim Rickert Director Service Began: April 2010	April 2013-2016	**Principal Occupation:** Owner/operator of Rickert Brothers LLC, a family owned dairy farm Owner/operator of Rickland Farms Inc, a family owned dairy farm
Max Weiss Director Service Began: April 2013	April 2013-2016	**Principal Occupation:** President of Diversified Farms LTD, custom farming, crop and livestock production operation Member of Weiss Feeds LLC, a feed and seed sales organization Member of MW Cattle Company LLC, a livestock production operation **Other Affiliations:** Member: MSN Properties LLC, a land holdings company Member: Max Weiss Trust, a land holdings company
Michael Winker Director Service Began: April 1997	April 2014-2017	**Principal Occupation:** Self-employed beef and cash crop farmer **Other Affiliations:** Board Member: Ozaukee County Dairy Promotion
Dan Zimmerman Director Service Began: April 2015	April 2015-2018	**Principal Occupation:** Vice President of Ever Green Growers Inc., a farming and elevator business Partner of Golden Grain LLC, a farming operation

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 $600 per day per diem for Board meetings, $400 per day for special 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 $4,000.

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

Name	Number of Days Served: Board Meetings	Number of Days Served: Other Official Activities	Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2015
Gary Boyke **	4.0	12.0	$ 500	Audit	$ 9,714
Mark Cade	13.0	40.5	2,150	Audit	27,345
			1,100	Compensation	
Rick Carlson *	8.0	4.5	650	Governance	6,873
Ken Congdon	12.0	8.5	1,075	Audit	14,047
			350	Compensation	
Dean Dorn	11.0	9.0	1,600	Audit	13,476
Jerome Durst **	4.0	9.0	350	Compensation	8,803
Timothy Evert	13.5	17.0	650	Governance	18,394
Sandy Larson	12.0	20.0	750	Compensation	17,803
Donald Leix	12.5	4.5	650	Governance - Chair	12,711
John Manske	11.0	13.5	350	Governance - Vice Chair	14,737
Lori Meinholz	13.0	18.5	1,100	Compensation - Vice Chair	17,950
Gregory Pollesch	13.0	18.5	3,100	Audit - Chair	18,057
Jim Rickert	12.0	14.5	750	Compensation	16,061
Max Weiss	14.0	24.5	3,100	Audit - Vice Chair	21,706
Michael D. Winker	13.0	25.5	500	Audit	21,394
			750	Compensation - Chair	
Dan Zimmerman *	9.0	8.0	1,850	Audit	8,895
					$ 247,966

* Selected in 2015

** Term expired in 2015

Senior Officers

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

Name	Position	Business experience and employment during past five years
Diane M. Cole	Chief Executive Officer	Chief Executive Officer from September 2006 to present.
Gregory S. Rufsvold	Senior Vice President, Chief Financial Officer	Senior Vice President, Chief Financial Officer from July 1998 to present.
Tom Blackbourn	Vice President, Human Resources	Manager in the Human Resources department of Badgerland from March 1999 to December 2009; Vice President, Human Resources from January 2010 to present.
Todd Fischer	Vice President, Risk Management	Loan Review Specialist for the Federal Deposit Insurance Corporation (FDIC) from August 2009 to May 2012; Bank Examiner for the Federal Reserve Bank of Minneapolis from May 2012 to September 2013; Financial Institution Examiner for the FDIC from September 2013 to August 2015; Vice President, Risk Management from August 2015 to present.
Laura Herschleb	Vice President, Marketplace Strategies	Cattle Show Manager for the World Dairy Expo from May 2008 to March 2013; Public Relations Manager for Badgerland Financial from March 2013 to September 2013; Vice President of Marketplace Strategies from October 2013 to present.
Terry A. McMahon	Senior Vice President, Chief Credit Officer	Assistant Chief Credit Officer from January 2008 to June 2011; Senior Vice President, Chief Credit Officer from July 2011 to present.
Bryan Stanek	Senior Vice President, Credit Delivery	Team Lead of Production-Agriculture at the Sparta Branch from January 2008 to October 2013; Senior Vice President, Credit Delivery from October 2013 to present.
Jerry Wiese	Vice President, Information Technology	Vice President of Information Technology from July 2007 to present. Beginning in September 2013, Mr. Wiese became a member of our senior management team.

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

Todd Fischer is the owner of Fischer Bros Acres, LLC, a real estate holding company, and owner of EF Hardwoods, LLC, also a real estate holding company.

Laura Herschleb serves on the Board of the Wisconsin 4H Foundation and is also the treasurer for the A Growing Place Preschool.

Jerry Weise is a shareholder in United Ethanol, an ethanol producer.

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 10 to the accompanying Consolidated Financial Statements.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

1430 North Ridge Drive
Prairie du Sac, WI 53578
(877) 780-6410
www.badgerlandfinancial.com
Greg.Rufsvold@badgerlandfinancial.com

The total directors' travel, subsistence, and other related expenses were $66 thousand, $44 thousand, and $60 thousand in 2015, 2014, and 2013, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2016 or at any time during 2015.

Member Privacy

The FCA 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 2015 were $76 thousand. The fees paid were for audit services 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.

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.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Badgerland Financial, ACA

(Unaudited)

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 US Department of Agriculture (USDA) publishes a Census of Agriculture every five years. The most recent census data was released in 2014 and based on a survey conducted in 2012. USDA uses categories that are slightly different from the FCA definitions of YBS farmers. 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 38,191 farms in the Badgerland chartered territory according to USDA, a reduction of more than 4,600 farms compared to the previous census.

The primary operator is younger than 35 on 2,128 of the farms in the Badgerland territory (5% of the total). The census shows that about 16% of the primary farm operators (5,930) in the Badgerland territory have been operating any farm for less than ten years. A large majority of the farms in the Badgerland territory (86%) had Ag sales less than $250,000 in the USDA census. More than 10,000 thousand farms (27%) had less than $1,000 in Ag sales in 2012, and 21,000 farms (55%) had less than $10,000 in Ag sales in 2012. There were 5,342 "Large" farms (> $250 thousand of sales) in 2012, or 14% of all farms.

Badgerland Financial YBS Mission Statement

Young, Beginning, and Small 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 Young, Beginning, & Small Farmer (YBS) policy in 1999 and revised it most recently in July of 2014. Badgerland believes that YBS farmers are essential to the continued prosperity of Wisconsin agriculture.

Badgerland Financial Portfolio

The table below includes Badgerland YBS loans as of December 31, 2015. The percentages are adjusted for Pro Partners and Capital Market participations purchased.

Category	Number of Loans	Volume (millions)	Percent of Portfolio
Young	6,539	$764	15%
Beginning	7,545	806	16%
Small	15,954	921	18%

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 fluctuated over the past five years so that someone who met the Small farmer criteria previously now may 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 to provide trade credit and leasing services in the Badgerland territory. Previous to participating with AgDirect, the YBS portfolio would have included loans for trade credit and leasing services. The chart below includes Capital Markets participations purchased.

Young, Beginning & Small Farmer Volume (Dollars in millions)				
Category	**2015 Results**	**2016 Targets**	**2017 Targets**	**2018 Targets**
Young Farmer Loans	6,540	6,802	7,142	7,570
Young Farmer Volume	$764	$825	$908	$1,017
Beginning Farmer Loans	7,546	7,999	8,559	9,243
Beginning Farmer Volume	$806	$887	$993	$1,132
Small Farmer Loans	15,957	16,276	16,764	17,435
Small Farmer Volume	$922	$959	$1,016	$1,098

Calendar Year Loan Activity (Originations & Renewals) (Dollars in millions)				
Category	**2015 Results**	**2016 Targets**	**2017 Targets**	**2018 Targets**
Young Farmer Loans	3,150	3,213	3,309	3,442
Young Farmer Volume	$238	$252	$273	$300
Beginning Farmer Loans	3,529	3,741	4,040	4,444
Beginning Farmer Volume	$234	$257	$288	$328
Small Farmer Loans	7,747	7,747	7,824	7,981
Small Farmer Volume	$230	$234	$243	$258

YBS Program Features

The Beginning with Badgerland, program originated in 2008 to assist Young and Beginning farmers in the Badgerland territory. In August of 2013, the Board approved changes to the initial program. In order to reach more Young and Beginning farmers, the decision was made to change the overall structure of the Beginning with Badgerland grant program. Depending on the farmer's relationship with Badgerland the grant program awards $250, $500 or $1,500 of grant funding to cover up to 100% of the cost of several different products and services. The grant money could cover services such as first year tax or farm accounting services from Badgerland Financial, farm accounting software, tuition fees for continuing producer education, registration fees for workshops and FSA guarantee fees.

Badgerland Financial works with commercial banks, other Farm Credit entities, FSA, and WHEDA to provide credit to YBS farmers. The association 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.

Through the Beginning with Badgerland program YB farmers who qualify for the program are eligible to receive a free consultation with Badgerland tax and farm accounting staff members and a complementary review of their past three years of tax returns. The Association also offers risk management services (crop insurance, livestock insurance, life insurance, disability insurance) to YBS farmers. Badgerland communicates with Young and Beginning farmers through quarterly electronic YB farmer e-newsletters. Programs, meetings and seminars on a variety of topics including but not limited to tax planning and crop insurance are offered wholly or in part by Badgerland staff and external providers and resources.

Badgerland contributes to many young farmer organizations and/or events, including 4-H, FFA, Wisconsin Farm Bureau YFA Conference, Wisconsin Jaycees Outstanding Young Farmer program, Wisconsin Jr. Holstein Association, Ag Safety Days in several Badgerland counties and more. In 2016, Badgerland, the Wisconsin Farm Bureau and UW Extension are co-sponsoring the sixth annual two day Wisconsin Ag Women's Summit.

Badgerland Financial offered 22, $1,000 scholarships to graduating high school seniors in 2015. Prior to 2015, scholarships were available to any student in our service area, member or not, pursuing studies in an agriculture related field. In 2015, scholarships were made available to children of members only, open to any course or area of study. The number of scholarships awarded changed from 20 to 22 in 2015 as well. Badgerland Financial also offers five, $1,000 scholarships to college students at both UW-River Falls and UW-Platteville pursuing an agricultural field ($10,000 total). Scholarships are awarded to students at UW-Madison and UW-Madison Short Course through endowed scholarship funds. All scholarship opportunities are widely publicized.

Providing Sound and Constructive Credit to YBS Farmers

Badgerland Financial is strongly committed to providing YBS farmers in its territory with greater access to credit by considering more liberal concessions when analyzing loan requests from YBS farmers. However, the association also recognizes that for YBS farmers to be successful, credit and services must be provided in a safe and sound manner. The association mitigates risk in YBS lending by making use of FSA loan guarantees or FSA participation loans, co-makers, crop insurance, life and disability insurance, marketing contracts, and other strategies. The association also provides numerous educational opportunities for YBS farmers to learn farm financial management and business planning skills.

The following underwriting guidelines are used as a framework for underwriting YBS loan requests:

YBSM Guideline	With FSA Guarantee	Without FSA Guarantee
Post-close OE	Based on all credit factors	% ≥ Age of Applicant
WC/AGI	≥ 5%	≥ 5%
CDRC*	≥ 105%*	≥ 115%*
Loan/AV	≤ 100% CL ; ≤ 97% ML	≤ 80% CL ; ≤ 80% ML

Guideline Definitions:

- Post-close Owner Equity (OE) = (Total Assets minus Total Liabilities) divided by Total Assets; measured as a percentage after all loans/leases are fully disbursed.
- WC = Working Capital; AGI = Adjusted Gross Income.
- CDRC* = Capital Debt Repayment Capacity. * Note: Cash flow adjustments will include allowances for building working capital where it does not meet standards with the deficiency repayment at 15% instead of our standard 25%.

Loan/AV= Loan amount at full disbursement or peak commitment divided appraised value of the collateral.

FUNDS HELD PROGRAM

Badgerland Financial, ACA

(Unaudited)

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 the 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.

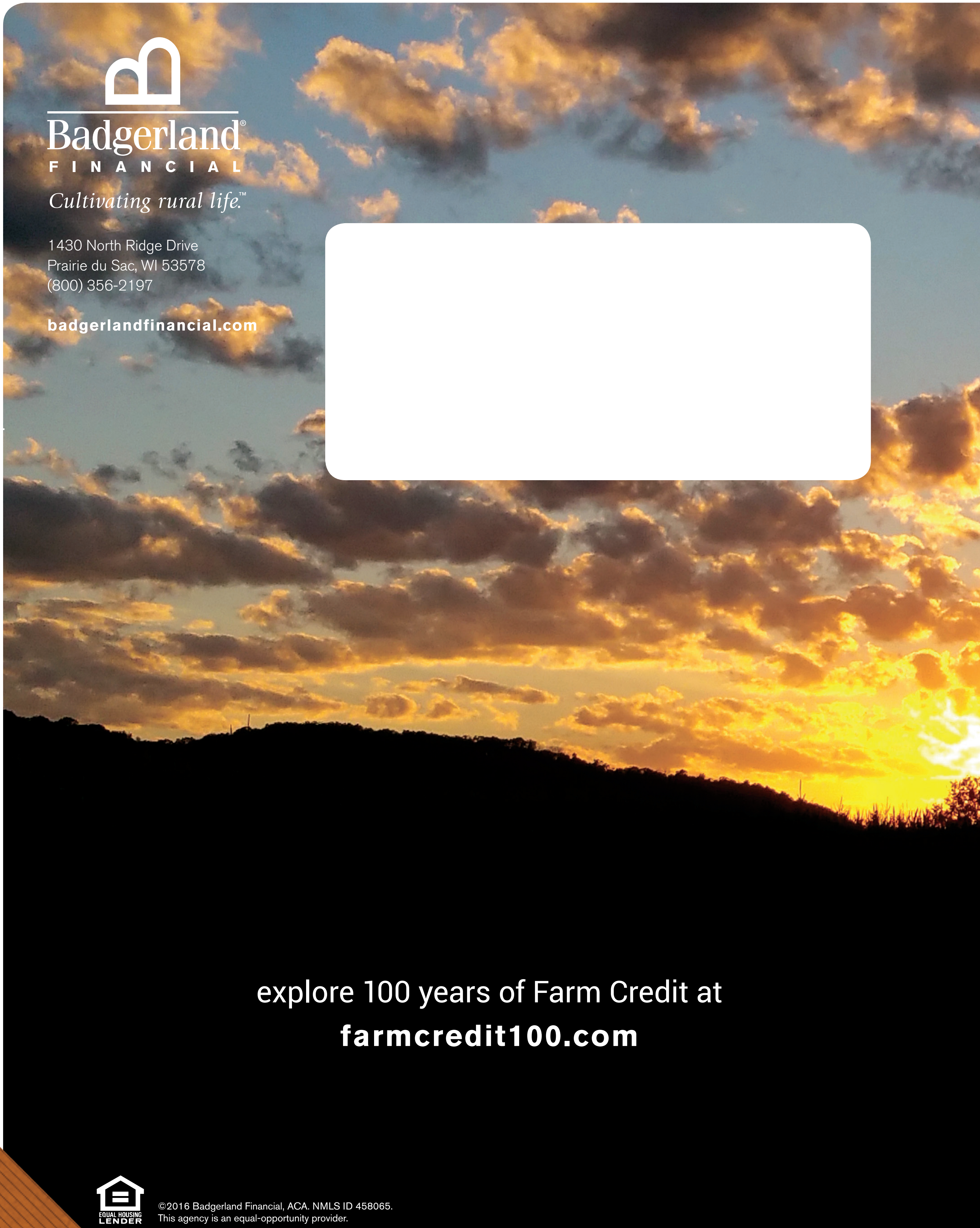
Liquidation

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.


Badgerland®
FINANCIAL
HERE TO HELP YOU GROW
Guarantees can be hard to come by. Thanks to Badgerland Financial and Farm Credit, a reliable source of credit and financial services is not. For 100 years, our cooperative structure has ensured we never stop caring—and our support means rural Wisconsin never stops growing.
Hannah Waldron, #LoveMyLand Photo Contest Top 20 Image



Badgerland FINANCIAL
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badgerlandfinancial.com

explore 100 years of Farm Credit at
farmcredit100.com