AgStar Financial Services, ACA

Quarterly Report
September 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgStar Financial Services, ACA (the parent) and AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in AgStar Financial Services, ACA. To request free copies of the AgriBank and combined AgriBank and affiliated Associations' financial reports or additional copies of our report, contact us at:

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FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2014 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

We serve many sectors in agriculture including our primary industries of grain, swine, and dairy. Credit quality, delinquencies, and nonaccrual measures showed significant improvement during 2014 and these measures have remained stable year to date in 2015. Looking forward, the prospects are more challenging for grain producers in our territory, compared to the more profitable trend of the previous several years. Some future deterioration is expected particularly if lower grain prices continue beyond 2015. Nonetheless, the quality of the crop portfolio continues to be strong at 98.2% non-adverse.

As of October 9, 2015, United States Department of Agriculture (USDA) projected 2015/16 corn production at 13.6 billion bushels, down 4.6% from the estimate for the 2014/15 marketing year. The decline is roughly in line with the call for a 4% decline based on the March 2015 Prospective Plantings survey. Estimated average yields are 168.0 bushels per acre, down from 171.0 bushels per acre in the last season. The 2015/16 season-average corn price received by producers is projected 30 cents higher to $3.50 to $4.10 per bushel compared to the estimate in June.

The USDA is currently projecting 2015/16 soybean production at 3.9 billion bushels, slightly less than the 2014/15 estimated levels. The current yield per harvested acre is projected to be 47.2 bushels per acre, down from 47.5 estimated for 2014/15, but up from 44.0 bushels per acre in 2013/2014. Soybean exports are projected at 1,675 million bushels, down 168 million from 2014/15. The 2015/16 season-average soybean price is projected at $8.40 to $9.90 per bushel, 15 cents higher than the projection in June.

The year 2014 was a strong period for most hog producers. While prices and margins look significantly less favorable for 2015, the quality of the swine portfolio remains very strong at 99.9% non-adverse. Porcine Epidemic Diarrhea Virus (PEDv) has had less of an impact in 2015 than in 2014, leading to lower volatility in the marketplace and an increase in production. The U.S. market hog inventory at 62.4 million head for September 1, 2015 was up 4% from last year and up 2% from last quarter. The market spot price of Lean Hogs, which peaked during the 2014 PEDv epidemic at over $130 per hundredweight, has declined to $70 per hundredweight as of October 5, 2015.

Declining expectations for milk prices continues throughout 2015 as the dairy industry's production response to high 2014 prices continues to work its way through the system. However, many producers had the ability to lock in break-even or better margins for all of 2015. The milk production forecast for 2015 at 208.9 billion pounds is 1.4% higher than 2014. The USDA projects an average price received by farmers for all milk of $16.90 to $17.00 per hundredweight in 2015, which is down 2.3% since June's forecast. We expect 2015 will be a decent year for most dairy producers and expectations are that most will again show some profitability due to lower feed costs and strong margins. The quality of the dairy portfolio improved further to 97.5% non-adverse currently.

The poultry sector has been affected by an outbreak of Highly Pathogenic Avian Influenza (HPAI) in 2015. In total, nearly 49 million birds were affected in 21 states throughout the United States with the last case detected June 17. With approximately 8.3 million birds affected, Minnesota and Wisconsin joined other

Midwest states by declaring a state of emergency, thereby ensuring more resources will be available to eradicate the virus. The greatest impact of HPAI was to turkeys and egg-laying hens, with the broiler population largely unaffected. Broiler meat prices have adjusted downward; and recent production forecasts have been modestly revised down as slow demand is expected to continue for the remainder of the year and into 2016. The majority of our poultry loans are in the broiler segment, and poultry as a whole represents less than 2% of our aggregate loan portfolio.

Over the last few years, overall conditions have been favorable for agricultural producers resulting in positive performance generally for agribusinesses. However, the combination of lower commodity prices, lower crop and livestock receipts, a strengthening U.S. dollar, and a weaker global economic picture should drive farm income below historical levels. Both net cash and net farm income are forecast to decline for the second consecutive year after reaching recent historic highs in 2013. According to USDA's Economic Research Service, national net farm income (NFI) —a key indicator of U.S. farm well-being— is forecast at $58.3 billion for 2015, down 36% from last year's level. The 2015 forecast would result in the lowest NFI since 2002, and 25% below the previous 10-year average. Despite the near-term conditions, farm wealth is projected to remain at record levels. The combination of lower income and record farm wealth suggests a mixed but manageable financial picture for the agricultural sector as a whole with some regional variation.

After years of steady increase, farm land values in our area have moderated and declined slightly in some areas; and are expected to continue to moderate as we progress through 2015 and into 2016 in response to lower commodity prices and the potential for changes in interest rates. According to a USDA June survey, cropland values in Minnesota declined 2.5% compared to the June 2014 survey. Despite the potential for further land value declines, the U.S. farm sector is in the best financial shape in over a generation. Given solid net worth positions and conservative borrowing characteristics, U.S. agriculture is well-positioned to handle a decline in land values without enduring significant financial stress and hardship.

Our rural home mortgage portfolio credit quality remains strong. Now five years beyond the peak of the housing crisis, our delinquency levels are the best we have seen in the past 12 years and better than the overall housing industry. The economy continues to generate a number of positive economic signals for the housing market. The U.S. Bureau of Labor Statistics reported that the national unemployment rate remains at 5.1% as of September 2015, a steady decline from over 10% in 2009. Both Minnesota and Wisconsin have state unemployment rates below the national average.

In response to the potential changes in the economic environment, some of our core credit objectives include working with clients to promote risk management, ensuring high quality financial statements and production reports, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies.

LOANS HELD TO MATURITY

Loans Held to Maturity

Loans held to maturity were $7.2 billion at September 30, 2015, an increase of $335.7 million from December 31, 2014. The increase was primarily due to increases in our net participations purchased, partially offset by repayments made by borrowers in our production agriculture sectors.

Portfolio Credit Quality

The credit quality of our portfolio slightly improved from December 31, 2014. Adversely classified loans decreased to 1.6% of the portfolio at September 30, 2015, from 1.8% 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/lease losses.

In certain circumstances, Federal Agricultural Mortgage Corporation and government agency guarantee programs are used to reduce the risk of loss. At September 30, 2015, $635.4 million of our loans were, to some level, guaranteed under these programs.

Risk Assets

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

As of:	**September 30 2015**	December 31 2014
Loans:		
Nonaccrual	**$ 53,463**	$ 51,339
Accruing restructured	**20,061**	22,892
Accruing loans 90 days or more past due	**2,038**	304
Total risk loans	**75,562**	74,535
Other property owned	**1,337**	3,140
Total risk assets	**$ 76,899**	$ 77,675
Total risk loans as a percentage of total loans	**1.0%**	1.1%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.7%
Total delinquencies as a percentage of total loans	**0.5%**	0.5%

Our risk assets have not changed significantly from December 31, 2014 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to the downgrading of certain accounts in our poultry and landlord segments. Nonaccrual loans remained at an acceptable level at September 30, 2015 and 69.5% of our nonaccrual loans were current.

The decrease in accruing restructured loans was primarily due to a payoff of an account in the dairy segment.

The increase in accruing loans 90 days or more past due was primarily due to certain production and intermediate term loans in our grain portfolio.

Allowance for Loan/Lease Losses

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

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

As of:	**September 30 2015**	December 31 2014
Allowance as a percentage of:		
Loans	**0.4%**	0.3%
Nonaccrual loans	**47.8%**	46.1%
Total risk loans	**33.8%**	31.7%

In our opinion, the allowance for loan/lease losses was reasonable in relation to the risk in our loan portfolio at September 30, 2015.

LOANS HELD FOR SALE

We have loans held for sale under a rural residential mortgage program, which is designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or homes that are part of a hobby farm, pastureland, or tillable acreage. Loans closed under this program will be sold to and securitized by a third party investor. At September 30, 2015, the volume in this program was $16.3 million, an $8.4 million increase from December 31, 2014. The increase was the result of our originations of new loans.

RESULTS OF OPERATIONS

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

For the nine months ended September 30	**2015**	2014
Net income	**$ 92,704**	$ 85,705
Return on average assets	**1.6%**	1.6%
Return on average equity	**10.5%**	10.5%

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

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

For the nine months ended September 30	**2015**	2014	**Increase (decrease) in net income**
Net interest income	**$ 147,355**	$ 139,056	**$ 8,299**
Provision for loan/lease losses	**3,030**	600	**(2,430)**
Patronage income	**13,445**	14,307	**(862)**
Other income, net	**30,641**	27,628	**3,013**
Operating expenses	**94,287**	93,106	**(1,181)**
Provision for income taxes	**1,420**	1,580	**160**
Net income	**$ 92,704**	$ 85,705	**$ 6,999**

The following table quantifies changes in net interest income for the nine months ended September 30, 2015 compared to the same period in 2014 (in thousands):

	2015 vs 2014
Changes in volume	**$ 12,659**
Changes in interest rates	**(6,119)**
Changes in asset securitization	**176**
Changes in nonaccrual income and other	**1,583**
Net change	**$ 8,299**

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

The change in patronage income was primarily due to a lower patronage rate received from AgriBank compared to the prior year. The effect of this decrease in rate was partially offset due to a higher average balance on our note payable.

The change in other income was primarily related to an increase in net fee income, other miscellaneous income, and crop insurance income. We originated rural home loans for resale into the secondary market. We sold loans in the secondary market totaling $45.3 million through September 30, 2015 compared to $26.6 million for the same period in 2014. The fee income from this activity totaled $960 thousand for the nine months ended September 30, 2015 compared to $537 thousand for the same period of 2014.

The change in operating expenses was primarily related to increases in salaries and benefits expense and Farm Credit System insurance expense (FCSIC). FCSIC 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 change in provision for income taxes was primarily related to decreased income on the taxable entities, primarily caused by an increase in provision for loan/lease losses on those entities.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on March 31, 2015 and was renewed for $7.4 billion with a maturity date of March 31, 2016. The note payable will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at September 30, 2015 or December 31, 2014.

Total equity increased $58.7 million from December 31, 2014 primarily due to net income for the period, which was partially offset by accrued redemptions of nonqualified patronage allocations and preferred stock dividend accruals.

Farm Credit Administration regulations require us to maintain a certain level for our permanent capital ratio, total surplus ratio, and core surplus ratio. Refer to Note 10 in our 2014 Annual Report for a more complete description of these ratios. The following table summarizes the regulatory minimums and our actual results for the regulatory ratios:

As of	Regulatory Minimums	**September 30 2015**	December 31 2014
Permanent capital ratio	7.0%	**15.4%**	15.7%
Total surplus ratio	7.0%	**15.1%**	15.4%
Core surplus ratio	3.5%	**12.6%**	12.9%

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

EMPLOYEE BENEFIT PLANS

Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. 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. Due to a change in actuarial assumptions approved by the AgriBank District Coordinating Committee in May 2015, the amount of the total District employer contributions expected to be paid into the pension plans during 2015 increased from $57.9 million to $62.7 million. Our allocated share of these expected pension contributions increased from $8.0 million to $8.6 million. The assumption changes were updated to more closely align with recent historical actuals and included modifying the annual salary rate increases, retirement rates, unused sick leave and optional forms of benefit payments elected. Refer to Note 12 in our 2014 Annual Report for a more complete description of our Employee Benefit Plans.

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.

As of the date of this report, the FCA Board has not approved a final rule related to either of these proposals.

CERTIFICATION

The undersigned have reviewed the September 30, 2015 Quarterly Report of AgStar Financial Services, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Kaye Compart
Chairperson of the Board
AgStar Financial Services, ACA

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

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

November 6, 2015

CONSOLIDATED STATEMENTS OF CONDITION

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

As of:		September 30 2015		December 31 2014
ASSETS				
Loans held to maturity	**$**	**7,235,326**	$	6,899,646
Allowance for loan/lease losses		**25,568**		23,655
Net loans held to maturity		**7,209,758**		6,875,991
Loans held for sale		**16,265**		7,899
Net loans		**7,226,023**		6,883,890
Investment securities (including $22,590 and $20,997 at fair value)		**466,959**		481,936
Assets held for lease, net		**37,985**		41,566
Accrued interest receivable		**76,135**		54,899
Investment in AgriBank, FCB		**151,109**		142,098
Premises and equipment, net		**16,956**		17,388
Other property owned		**1,337**		3,140
Other assets		**47,808**		47,954
Total assets	**$**	**8,024,312**	$	7,672,871
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**6,621,853**	$	6,340,682
Subordinated debt		**100,000**		100,000
Accrued interest payable		**28,132**		24,367
Deferred tax liabilities, net		**2,731**		6,730
Other liabilities		**74,695**		62,914
Total liabilities		**6,827,411**		6,534,693
Contingencies and commitments		**--**		--
EQUITY				
Capital stock and participation certificates		**16,145**		16,177
Preferred stock		**100,000**		100,000
Allocated surplus		**390,771**		371,004
Unallocated surplus		**689,985**		650,915
Accumulated other comprehensive income		**--**		82
Total equity		**1,196,901**		1,138,178
Total liabilities and equity	**$**	**8,024,312**	$	7,672,871

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Three Months Ended		Nine Months Ended	
For the period ended September 30	**2015**	2014	**2015**	2014
Interest income	**$ 79,143**	$ 72,504	**$ 227,994**	$ 213,924
Interest expense	**27,777**	25,441	**80,639**	74,868
Net interest income	**51,366**	47,063	**147,355**	139,056
Provision for (reversal of) loan/lease losses	**1,330**	(77)	**3,030**	600
Net interest income after provision for (reversal of) loan/lease losses	**50,036**	47,140	**144,325**	138,456
Other income				
Patronage income	**4,544**	4,768	**13,445**	14,307
Net operating lease income	**439**	440	**1,325**	1,214
Financially related services income	**4,899**	3,556	**14,650**	13,689
Fee and miscellaneous income, net	**4,704**	4,770	**14,666**	12,725
Total other income	**14,586**	13,534	**44,086**	41,935
Operating expenses				
Salaries and employee benefits	**22,261**	21,328	**65,000**	62,889
Farm Credit System insurance	**2,121**	1,780	**6,207**	5,312
Other operating expenses	**7,317**	8,781	**23,080**	24,905
Total operating expenses	**31,699**	31,889	**94,287**	93,106
Income before income taxes	**32,923**	28,785	**94,124**	87,285
(Benefit from) provision for income taxes	**(3,746)**	(4,009)	**1,420**	1,580
Net income	**$ 36,669**	$ 32,794	**$ 92,704**	$ 85,705
Other comprehensive income				
Investment securities available for sale:				
Not-other-than-temporary-impaired investments	**$ --**	$ --	**$ (82)**	$ --
Total other comprehensive income	**--**	--	**(82)**	--
Comprehensive income	**$ 36,669**	$ 32,794	**$ 92,622**	$ 85,705

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Income	Total Equity
Balance at December 31, 2013	$ 100,000	$ 15,912	$ 339,360	$ 600,888	$ --	$ 1,056,160
Net income	--	--	--	85,705	--	85,705
Net surplus allocated under nonqualified patronage program	--	--	43,176	(43,176)	--	--
Redemption of prior year allocated patronage	--	--	(28,250)	--	--	(28,250)
Preferred stock dividend	--	--	--	(6,749)	--	(6,749)
Capital stock and participation certificates issued	--	1,156	--	--	--	1,156
Capital stock and participation certificates retired	--	(993)	--	--	--	(993)
Balance at September 30, 2014	$ 100,000	$ 16,075	$ 354,286	$ 636,668	$ --	$ 1,107,029
Balance at December 31, 2014	$ 100,000	$ 16,177	$ 371,004	$ 650,915	$ 82	$ 1,138,178
Net income	**--**	**--**	**--**	**92,704**	**--**	**92,704**
Other comprehensive income	**--**	**--**	**--**	**--**	**(82)**	**(82)**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**46,884**	**(46,884)**	**--**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(27,117)**	**--**	**--**	**(27,117)**
Preferred stock dividend	**--**	**--**	**--**	**(6,750)**	**--**	**(6,750)**
Capital stock and participation certificates issued	**--**	**983**	**--**	**--**	**--**	**983**
Capital stock and participation certificates retired	**--**	**(1,015)**	**--**	**--**	**--**	**(1,015)**
Balance at September 30, 2015	**$ 100,000**	**$ 16,145**	**$ 390,771**	**$ 689,985**	**$ --**	**$ 1,196,901**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

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

Recently Issued or Adopted Accounting Pronouncements

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

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

Loans held to maturity consisted of the following (dollars in thousands):

As of:	September 30, 2015		December 31, 2014	
	Amount	%	Amount	%
Real estate mortgage	$ 3,625,393	50.1%	$ 3,473,882	50.4%
Production and intermediate term	1,777,114	24.6%	1,927,376	27.9%
Agribusiness	1,006,572	13.9%	718,870	10.4%
Other	826,247	11.4%	779,518	11.3%
Total	$ 7,235,326	100.0%	$ 6,899,646	100.0%

The other category is primarily comprised of energy, communication, rural residential real estate, and international related loans as well as finance and conditional sales leases and bonds originated under our mission related investment authority.

Credit Quality and Delinquency

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

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

We had no loans categorized as loss at September 30, 2015 or December 31, 2014.

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

	Acceptable		OAEM		Substandard/ Doubtful		Total	
As of September 30, 2015	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 3,530,791	96.2%	$ 89,214	2.4%	$ 51,373	1.4%	$ 3,671,378	100.0%
Production and intermediate term	1,721,614	95.8%	39,340	2.2%	36,634	2.0%	1,797,588	100.0%
Agribusiness	982,278	97.3%	17,508	1.7%	9,853	1.0%	1,009,639	100.0%
Other	785,411	94.9%	24,110	2.9%	18,277	2.2%	827,798	100.0%
Total	$ 7,020,094	96.1%	$ 170,172	2.3%	$ 116,137	1.6%	$ 7,306,403	100.0%

As of December 31, 2014	Acceptable Amount	%	OAEM Amount	%	Substandard/ Doubtful Amount	%	Total Amount	%
Real estate mortgage	$ 3,358,426	95.8%	$ 72,739	2.1%	$ 72,440	2.1%	$ 3,503,605	100.0%
Production and intermediate term	1,885,550	97.0%	30,923	1.6%	27,287	1.4%	1,943,760	100.0%
Agribusiness	709,852	98.4%	1,608	0.2%	9,849	1.4%	721,309	100.0%
Other	748,963	95.9%	18,930	2.4%	12,998	1.7%	780,891	100.0%
Total	$ 6,702,791	96.4%	$ 124,200	1.8%	$ 122,574	1.8%	$ 6,949,565	100.0%

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

As of September 30, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 12,768**	**$ 6,096**	**$ 18,864**	**$ 3,652,514**	**$ 3,671,378**	**$ 503**
Production and intermediate term	**5,041**	**5,452**	**10,493**	**1,787,095**	**1,797,588**	**1,493**
Agribusiness	**52**	**245**	**297**	**1,009,342**	**1,009,639**	**42**
Other	**2,186**	**1,948**	**4,134**	**823,664**	**827,798**	**--**
Total	**$ 20,047**	**$ 13,741**	**$ 33,788**	**$ 7,272,615**	**$ 7,306,403**	**$ 2,038**

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	90 Days or More Past Due and Accruing
Real estate mortgage	$ 14,723	$ 7,035	$ 21,758	$ 3,481,847	$ 3,503,605	$ 282
Production and intermediate term	3,182	2,597	5,779	1,937,981	1,943,760	7
Agribusiness	1,984	--	1,984	719,325	721,309	--
Other	2,788	1,104	3,892	776,999	780,891	15
Total	$ 22,677	$ 10,736	$ 33,413	$ 6,916,152	$ 6,949,565	$ 304

Risk Loans

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

As of:	**September 30 2015**	December 31 2014
Volume with specific reserves	**$ 6,265**	$ 8,779
Volume without specific reserves	**69,297**	65,756
Total risk loans	**$ 75,562**	$ 74,535
Total specific reserves	**$ 3,491**	$ 3,098
For the nine months ended September 30	**2015**	2014
Income on accrual risk loans	**$ 1,043**	$ 329
Income on nonaccrual loans	**5,985**	4,174
Total income on risk loans	**$ 7,028**	$ 4,503
Average risk loans	**$ 78,465**	$ 121,377

We had $4.8 million of commitments to lend additional money to borrowers whose loans were at risk at September 30, 2015.

Troubled Debt Restructurings (TDRs)

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

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

	2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 244**	**$ 534**	$ 736	$ 594
Production and intermediate term	**649**	**370**	408	409
Other	**--**	**--**	190	190
Total	**$ 893**	**$ 904**	$ 1,334	$ 1,193

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 during the nine months ended September 30, 2015 were deferral of principal and extension of maturity.

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

	2015	2014
Real estate mortgage	**$ --**	$ 55
Production and intermediate term	**14**	5,145
Total	**$ 14**	$ 5,200

The following table presents information regarding TDRs outstanding (in thousands):

As of:	September 30 2015	December 31 2014
Accrual status:		
Real estate mortgage	**$ 17,138**	$ 18,494
Production and intermediate term	**2,923**	4,398
Total TDRs in accrual status	**$ 20,061**	$ 22,892
Nonaccrual status:		
Real estate mortgage	**$ 5,207**	$ 6,835
Production and intermediate term	**5,590**	5,709
Other	**8,543**	8,788
Total TDRs in nonaccrual status	**$ 19,340**	$ 21,332
Total TDRs	**$ 39,401**	$ 44,224

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $4.1 million at September 30, 2015.

Allowance for Loan/Lease Losses

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

Nine months ended September 30	2015	2014
Balance at beginning of period	**$ 23,655**	$ 24,725
Provision for loan/lease losses	**3,030**	600
Loan recoveries	**597**	2,101
Loan charge-offs	**(1,714)**	(2,699)
Balance at end of period	**$ 25,568**	$ 24,727

The increase in allowance for loan/lease losses was related to provision expense recorded in 2015 reflecting the deterioration in the grain portfolio.

NOTE 3: INVESTMENT SECURITIES AND OTHER INVESTMENTS

We had held-to-maturity investment securities of $444.4 million at September 30, 2015 and $460.9 million at December 31, 2014. Our investment securities consisted of:

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

The investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments. Farmer Mac guaranteed investments are typically MBS while SBA and USDA guaranteed investments may be comprised of either MBS or ABS. All of our held-to-maturity investment securities were fully guaranteed by Farmer Mac, SBA, or USDA at September 30, 2015 and December 31, 2014.

The following table presents further information on held-to-maturity investment securities (dollars in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
As of September 30, 2015					
MBS	**$ 401,536**	**$ 2,555**	**$ (8,557)**	**$ 395,534**	**3.8%**
ABS	**42,833**	**12**	**(2,289)**	**40,556**	**2.0%**
Total	**$ 444,369**	**$ 2,567**	**$ (10,846)**	**$ 436,090**	**3.6%**
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
As of December 31, 2014					
MBS	$ 414,902	$ 2,704	$ (9,435)	$ 408,171	3.8%
ABS	46,037	17	(2,299)	43,755	2.2%
Total	$ 460,939	$ 2,721	$ (11,734)	$ 451,926	3.7%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $11.2 million and $11.7 million for the nine months ended September 30, 2015 and 2014, respectively.

The following table presents contractual maturities of our held-to-maturity investment securities (in thousands):

As of September 30, 2015	Amortized Cost
Less than one year	**$ 1,124**
One to five years	**33,902**
Five to ten years	**71,140**
More than ten years	**338,203**
Total	**$ 444,369**

A summary of held-to-maturity investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows (in thousands):

	Less than 12 months		Greater than 12 months	
As of September 30, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$ 36,233**	**$ 1,007**	**$ 161,071**	**$ 7,550**
ABS	**6,765**	**436**	**30,873**	**1,853**
Total	**$ 42,998**	**$ 1,443**	**$ 191,944**	**$ 9,403**
	Less than 12 months		Greater than 12 months	
As of December 31, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$ 54,047	$ 3,257	$ 157,552	$ 6,178
ABS	19,232	1,196	19,444	1,103
Total	$ 73,279	$ 4,453	$ 176,996	$ 7,281

We held investment securities available-for-sale, consisting of MBS, with a fair value of $22.6 million and $21.0 million at September 30, 2015 and at December 31, 2014, respectively. For these investments, the amortized cost was $22.6 million and $20.9 million and the contractual maturities were all more than ten years at September 30, 2015 and December 31, 2014, respectively. There was no unrealized gain or loss at September 30, 2015 and an unrealized gain of $82 thousand at December 31, 2014.

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

AgStar Financial Services, ACA, AgriBank, and certain affiliated Associations are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate equity and debt investments in agriculture-related businesses that will create growth and job opportunities in rural America. Our total commitment is $20.0 million through October 2019. Our investment in the RBIC is recorded in “Other assets” in the Consolidated Statements of Condition, and totaled $3.4 million at September 30, 2015 and $757 thousand at December 31, 2014.

NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

We are among the forming limited partners in a RBIC. Refer to Note 3 for additional discussion regarding this commitment.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2014 Annual Report for a more complete description of the three input levels.

Recurring Basis

The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a recurring basis:

Loans held for sale: The loans held for sale portfolio is held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar mortgage loans with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. We had loans held for sale of $16.3 million and $7.9 million as of September 30, 2015 and December 31, 2014, respectively, which were valued using Level 3 unobservable inputs. Total fair value gains related to these loans of $205 thousand for the nine months ended September 30, 2015, compared to $328 thousand for the same period of 2014, were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Investment securities available-for-sale: Investment securities available-for-sale are held at fair value. Fair value is based on quoted market prices, where available, or the prices for other similar securities with similar characteristics. As necessary, these prices are adjusted for typical securitization activities, including servicing value, portfolio composition, market conditions, and liquidity. Investment securities available-for-sale totaled $22.6 million and $21.0 million at September 30, 2015 and December 31, 2014, valued using Level 3 unobservable inputs. Losses related to these investments totaling $82 thousand for the nine months ended September 30, 2015 were recognized in “Other comprehensive income” in the Consolidated Statements of Comprehensive Income. During the nine months ended September 30, 2015, we sold available-for-sale investment securities with total sales proceeds of $30.7 million, resulting in a gain of $121 thousand, which was recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. We had no investment securities available-for-sale during the same period of 2014.

Derivatives: If an active market exists, the fair value of our derivative financial instruments called “to be announced” securities (TBAs) is based on currently quoted market prices. We had TBAs with a notional value of $43.7 million and $8.9 million as of September 30, 2015 and December 31, 2014, respectively, which were used to manage exposure to interest rate risk and changes in the fair value of loans held for sale and the interest rate lock commitments that are determined prior to funding. These derivatives were recorded on a net basis using Level 1 fair value inputs. Net losses related to TBAs sold, combined with fair value gains on the TBAs, resulted in a net loss of $656 thousand for the nine months ended September 30, 2015, compared to $336 thousand for the same period of 2014. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

Non-Recurring Basis

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

The following represents a summary of the assets, valuation techniques, and inputs used to measure fair value on a non-recurring basis:

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

Information on assets measured at fair value on a non-recurring basis follows (in thousands):

	As of September 30, 2015				Nine months ended September 30, 2015
	Fair Value Measurement Using			Total Fair	Total (Losses)
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	**$ --**	**$ 1,421**	**$ 1,492**	**$ 2,913**	**$ (846)**
Other property owned	**--**	**--**	**1,799**	**1,799**	**477**

	As of December 31, 2014				Nine months ended September 30, 2014
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Gains
Impaired loans	$ --	$ 1,174	$ 4,792	$ 5,966	$ 1,351
Other property owned	--	--	4,322	4,322	564

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through November 6, 2015, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.