AgStar
Financial Services, ACA



ANNUAL REPORT 2014

IT'S YOUR *Story*

IT'S YOUR *Story*

Your story is unique, compelling and important. It's a chapter in the book of agriculture, and it deserves to be shared. At AgStar Financial Services, we're privileged to be a part of many stories all coming together for a common cause; chronicling the dedication, passion, tradition and innovation our industry is known for. That's why we're so honored to provide leadership, guidance and insight specifically designed to help you — the men and women of ag.

From the beginning, we have believed in you.

We've trusted in your ambition and partnered to fuel your dreams.

Together, we've found the middle ground between maintaining financial stability and expanding your future.

For nearly 100 years, we've stood by the men and women of rural America, providing world-class financial services, education, development, means for growth and financial expertise.

At AgStar, we're committed for the long haul so that your story doesn't end — it lives on for generations.

AGSTAR FINANCIAL SERVICES MISSION STATEMENT

Enhancing Life in Agriculture and Rural America.

Johnson Rolling Acres
Left to Right: Richard, Zac, Pam, Gerald, Ellen, Brad, Kari, Lee, Cindy, Mark, Emily, Trinity. Front: Nora and LeRoy.

Richard Johnson's STORY

AgStar Client | Peterson, MN

"AgStar has been a real asset to our operation since 1950. We've been doing business with them for so long we're just accustomed to our loan officer coming down to our farm rather than having to travel to them. Through three generations, each succession, every transition and several diversification projects, AgStar has been there to help."

INDUSTRY WEBINARS AND EVENTS

2014 was a year of unpredictability and change like no other. When our clients needed timely, relevant information and practical guidance, they turned to AgStar.

During spring, when heavy rains prevented expected plantings, we held meetings, created materials and offered expert advice on available options and guidelines.

When PEDv infiltrated swine farms all across the nation, our team provided insights, perspective and the latest information via webinars and in-person events featuring alliance partners and our own renowned swine team.

Dairy clients had the opportunity to attend several webinars and a workshop conducted in conjunction with Midwest Dairy Expo.

We also helped share our client's success stories globally via the World Dairy Expo's Virtual Tour platform.

All in all, over 5,600 participated in these webinars and in-person events.

Trevor Knutson's STORY

AgStar Client | Ridgeland, WI

"When attending an AgStar Prevented Planting meeting in May, I wasn't too surprised at how many people were there. I knew the wet weather had affected a large area. It's important to know what qualifies, what you can and can't do and what the entire process entails. It's easy to be misinformed about the rules, so it was great to hear directly from the AgStar team."

2014 Farm Bill

A new era emerged in farm legislation with the passing of the 2014 Farm Bill, affecting landowners and producers across the country.

AgStar responded by providing informational articles, hosting workshops, developing a Quick Guide to Farm Bill Decisions and directing clients to key online decision making tools. AgStar will continue to be your trusted source for key Farm Bill information and deadlines throughout the year 2015.

THE MORE YOU KNOW, THE GREATER YOUR STORY



AgStar Edge

A great philosopher once said, "Knowledge is power." At AgStar, we tend to agree. That's why we're committed to providing you with the knowledge you need to enrich your story today, and for future generations, through AgStar Edge.

Each year, thousands of our clients take advantage of workshops, webinars and events led by AgStar team members and industry experts from across the country. As an AgStar client, you have a continuous stream of relevant insights, expert guidance, proven tools and management strategies you can apply to your operation to help you reach your business goals.

AgStar Edge Resources Include:

LITERATURE

- Industry-specific blogs written by AgStar experts in swine (featuring the renowned Hog Blog), dairy, grain and renewable fuel to name a few
- Ag industry news and articles, plus specific grain, swine and dairy expertise
- Email newsletters with industry specific market and legislative information

TOOLS AND RESOURCES

- Webinars on relevant topics, featuring national ag experts
- Calculators including margin manager, crop revenue and balance sheet calculators
- Industry reports
- USDA reports
- Full video library

WORKSHOPS AND EVENT TOPICS

- Financial analysis
- Margin management
- Marketing tools
- Credit topics
- Outlook meetings
- Women's Seminars

GIVING YOU A VOICE

Women in Agriculture Blog

As women, farmers and professionals, AgStar understands how hard the women of ag work every day. It's not always easy to find other women who can relate to that way of life. That's why we created our Women in Agriculture online community. It's a place to connect with other women and to learn and share. In 2014 we had over 13,000 interactions within this community.

Wanda Patsche's STORY

AgStar Client | Welcome, MN

"As a swine producer, wife, mom and grandmother with five grandchildren, I am involved in many organizations. AgStar's Women in Ag provides an outlet for me to share my own experiences and hear from other women like myself.

This blog is so important because, when it comes to blogging, ag moms have a unique perspective. It is vital to get ag's message from the producer to consumers — especially to other mothers. AgStar's blog helps to encourage that and provides opportunities for the women of ag to learn, share and grow.

I appreciate the seminars AgStar holds; being able to ask questions is invaluable. When I am not contributing to the Women in Ag blog, I follow other AgStar blogs and social media."

PROVIDING PERSPECTIVE

From benchmarking to margin and risk management, AgStar builds relationships and provides coaching on farm-related topics with a focus on the dairy, swine, grain and bio-energy industries.

AgStar's benchmarking allows clients to better understand their competition and position within a specific industry. And, more importantly, provides support to track your farm's individual results from year-to-year.

In 2014, approximately 400 clients took advantage of AgStar's financial reporting and benchmarking services.

Your Industry Experts

The AgStar team offers clients the benefit of our expertise in a variety of industries, such as crop insurance, home mortgage, legislative affairs and timber. Our grain, dairy and swine experts provide important insights and perspectives to clients, and are well known and respected industry-wide.

GRAIN

Growing global demand will keep the spotlight on corn, soybeans and renewable energy well into the future. With a unique balance of production, marketing and risk management, AgStar is committed to providing solutions that keep you ahead of your competition.

DAIRY

With decades of experience serving dairy producers, AgStar knows that from a herd of 20 to 2,000, you need insight, guidance and resources to respond to market fluctuations, weather shifts and economic cycles. From in-depth dairy business consulting to marketing insight to industry knowledge and expertise, we provide resources that help you remain competitive.

SWINE

If you're a pork producer, there's no one better to have on your side than AgStar. Together the members of AgStar's Swine Team have a wealth of experience working for clients large and small. From impact on disease, to economic issues to government relations, AgStar has the expertise to help you navigate the complex issues facing pork producers today.

Benj & Kristi Kiehne's
STORY

AgStar Client | Harmony, MN

"When we started our swine operation, AgStar led us on the path to success with people who advised us to use risk management practices and secure contracts. Today, they provide us with crop insurance, seminars and other helpful products so that we can succeed and grow our business for future generations. We visit the Hog Blog often, monitor market prices and utilize AgStar's online calculators. AgStar team members meet with us on our farm and show they are interested in our operation. We just can't say enough about them."

Renville County Hospital's
STORY

When Renville County Hospital in southwest Minnesota decided to build a new facility to replace their current building built in 1951, their Board of Directors turned to the USDA and AgStar for options.

"AgStar is proud to partner with Renville County Hospital and Clinics, USDA and our other partners involved in this project," says Bob Madsen, Vice President at AgStar. "Health care options and patient safety significantly improve when a community has access to primary care physicians and up-to-date technology."

One of the members of the hospital's Board of Directors, John Stahl, says they couldn't have done it without AgStar. "We found the financing process to be painless and their team easy to work with. Members of AgStar, including

GROWING AS PARTNERS

The Fund for Rural America

In 2001, the AgStar Fund for Rural America was created. Since its inception, this corporate giving program has donated over $4 million to organizations in rural communities that work to improve quality of life through education, technology or the environment.

Emerging Agribusiness Lending Program

We believe a diverse population enriches rural communities. Formerly known as the Minority Lending Program, AgStar launched the effort to provide flexible financing options for minority agricultural producers in 2012. Since then, AgStar has partnered with several producers to help grow their businesses and be successful in local agricultural markets.

Bob Madsen, are often out at the new construction site. It's always nice to see him; he's a very friendly guy. As a community, we are so very thankful for this opportunity."

John's wife, Dr. Kathryn K. Kelly, heads the local Capital Campaign for the hospital, raising money for the first permanent, onsite MRI department in the county, and for equipping a second surgical room for the new hospital. Working with AgStar isn't new for Dr. Kelly. "For over 20 years I've had involvement with the AgStar team, and they've been nothing but kind," she explains. "When I heard the hospital had chosen AgStar to work with in constructing the new medical center, I knew they had done their homework."

Pope Architects, Inc.

BUSINESS UNITS

Client Solutions

AgStar's **Client Solutions Team** delivers guidance, insight and counseling to support our array of services including loans and leases, crop insurance and consulting to over 14,600 clients and producers. Depending on the client's specific goals and unique needs, our team collaborates within the organization to bring specialized knowledge and expertise. From grain to livestock to renewable fuels and emerging markets, our team possesses extensive knowledge in their areas of expertise, providing financial services and counseling to commercial producers, agribusinesses and processors.

Our consulting team provides business advice and professional services such as financial management and succession planning. Services are provided across many commodities with particular expertise in the swine, dairy and cash grain industry segments.



Our **Home Mortgage Services** team focuses on offering home financing options for clients in rural areas or communities. The focal point of this segment is mortgages to buy, build or refinance residences or acreages. We also serve eligible clients wishing to purchase rural real estate for recreational use, such as hunting and sporting. To support the home mortgage client, we additionally offer title insurance and home renovation loans.

The **Capital Markets** team focuses on relationships with commercial banks, Farm Credit Institutions and other lending partners in buying loan participations and syndications. This specialized team provides a national marketing vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings and market intelligence to the organization.

Agri-Access® (www.Agri-Access.com) operates as a unit of AgStar Financial Services, ACA and is a correspondent lender primarily focused on purchasing participations in agricultural real estate loans, rural home loans and leases across the U.S. Agri-Access brings diversification to AgStar's portfolio. Agri-Access also services agricultural loans for the institutional investors. The main Agri-Access contact office is located in Des Moines, Iowa. We also have contacts in Meridian, Idaho and Canyon, Texas.

The **Rural Capital Network** (www.AgStarRuralCapitalNetwork.com) team is devoted to supporting community and economic development, infrastructure needs, revitalization projects and emerging markets in rural America. AgStar Rural Capital Network invests in projects through the purchase of bonds issued by local communities, organizations or businesses. In addition, this team partners with other Farm Credit associations and local community banks focusing on investing in critical access hospitals, assisted-living facilities, dental facilities, rural rental multi-family housing, business expansions, etc.

PRODUCTS & SERVICES

Loans

Operating Loans
Equipment Loans
Real Estate Loans
Starter Loans for young, beginning and emerging market farmers

Leasing

Equipment and Machinery Leases
Truck and Trailer Leases
Vehicle Leases
Building and Facility Leases

Insurance

Crop Hail Insurance
Multi-Peril Crop Insurance
Specialty Crop Insurance
Crop Revenue Insurance
Life Insurance

Home Mortgages

Home Loans
Construction Loans
Hobby Farm Loans
Manufactured Housing Loans
Home Site Loans
Recreational Land Loans
Home Renovation Loans

Business Services

Fleet Services
Appraisal Services
Cash Management Services
AgStar Edge
Margin Manager
Internet Banking
Remote Deposit Capture

Consulting Services

Succession Planning
Financial Management

EQUAL HOUSING OPPORTUNITY LENDER

2014 HIGHLIGHTS

In January, AgStar and the Fund for Rural America sponsored the "Let's Kick Hunger Day" Radiothon at the Mall of America. The event raised more than $250,000 for Second Harvest Heartland, one of the largest food banks in the U.S.

GIVING BACK

In 2014, a Rural Business Investment Corporation (RBIC) was formed with certain other Farm Credit institutions to facilitate private equity investments in ag-related businesses to create growth opportunities in rural America. Our commitment is $20 million over the next five years.

RBIC

AgStar was named one of the Top 100 Workplaces four years in a row in Minnesota based on an employee survey conducted by the Star Tribune.

TOP WORKPLACES

Rodney Hebrink
President and CEO
AgStar Financial Services, ACA

Kaye Compart
Chairperson of the Board
AgStar Financial Services, ACA

TO OUR STOCKHOLDERS

Farming is more than a job; it's a way of life — one lived with your hands in the dirt and your eyes to the sky.

At AgStar, we're serious about helping you focus on and leverage the aspects of agriculture that will help you realize your vision and create your unique story. Through education, smart planning, margin management and risk management, our clients are reaching their goals, growing their businesses and achieving results in spite of the unpredictable nature of our industry.

IT'S YOUR SUCCESS

2014 was an excellent year for AgStar financially, with a net income of $117.4 million, and an 8.4 percent increase in loan volume. Additionally, our credit quality and capital ratios improved to among the strongest levels ever. By providing resources and guidance to help growers understand their options, rebalance their financials and proactively manage their costs, we came together to face uncertainty with confidence. With such outstanding results, we were once again proud to distribute nearly $29 million in patronage dividends back to you.

IT'S YOUR REGION

In addition to allocating earnings back to our clients, AgStar remains committed to the success of rural communities — the communities in which our clients and team members live and work every day. Our Rural Capital Network team collaborated with strategic partners to provide financing for rural healthcare, assisted living facilities and multi-family housing. In Renville County, Minnesota, for example, AgStar worked with USDA Rural Development for construction of an all-new hospital to replace the current outdated facility. Moving forward, this project will create jobs, strengthen the local economy and, most importantly, save lives — bringing the latest technology and medical services to community members who once had to drive many miles for advanced treatments at more modern hospitals.

Through the AgStar Fund for Rural America, we were privileged to commit $928,000 in 2014 to enhance educational opportunities, strengthen community programs and support organizations working to enrich the lives of those who live and work in rural America.

IT'S YOUR INDUSTRY

Through AgStar Edge, we offered valuable information from experts to help clients make better decisions, assess your strengths and weakness, understand global markets and become more confident in applying risk management techniques. The 2014 Farm Bill marked a new era in farm legislation, and AgStar was there every step of the way, responding with informative articles and video blogs, webinars, workshops and key decision-making tools. We believe the more you know, the more successful you will be.

IT'S YOUR STORY

You work hard every day to feed the world, nurture the land, preserve traditions and prepare for the next generations of farmers and ranchers to take the reins. All of us at AgStar are proud to be a part of this industry and honored to be a small chapter in the story of your truly exceptional life. Our business is financial services, but it would be no business at all without you, your goals and aspirations. You are the reason AgStar becomes stronger and better positioned to fulfill our mission of "Enhancing Life in Agriculture and Rural America." Thank you for giving us your business.

LEADERSHIP

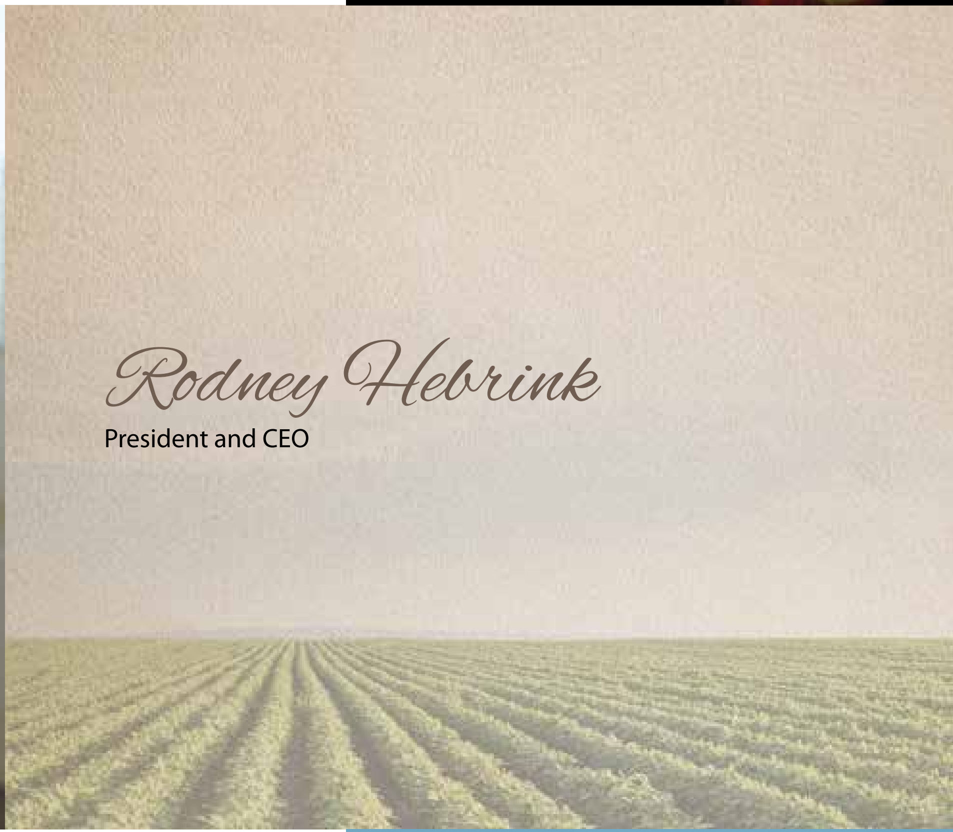
Because most of our board members are producers and elected by client-stockholders, their interests and goals are the same as yours. It's no wonder your story means a lot to each and every one. They're focused on Enhancing Life in Agriculture and Rural America, a mission that starts with you.

Our executive team carries out the Board's directives. The vision, expertise and strategic direction of AgStar's leadership team are vital to our growth and success.

Board of Directors

Bottom left to right:
Theresa (Ann) Broome, Rick Sommers, Lawrence Romuald, Kaye Compart, David Bollman, Eunice Biel, Greg Nelson, Dale Holmgren

Top left to right:
Wesley Beck, Steven Johnson, Terry Ebeling, Larry Fischer, Spencer Enninga, Kevin Koppendrayer, Lowell Schafer, David Kretzschmar, William McCue



Executive Committee

Front left to right:
Jodie Hermer, Rodney Hebrink, Wick Manley

Back left to right:
Jase Wagner, John Hemstock, Paul Kohls, Tim Tracy, John Monson, Joe Deufel

FINANCIAL HIGHLIGHTS

2014

6.67% Compound Annual Growth Rate for the Last Five Years

$1,138 MILLION Equity (Total Capital)

Net Income After Tax (In Millions)

2014	$117.4
2013	$116.1
2012	$107.4
2011	$75.4
2010	$66.7

Earning Assets (In Billions)

2014	$7.4
2013	$6.9
2012	$6.4
2011	$5.7
2010	$5.4

Cumulative Patronage Allocations (In Millions)

2014	$513
2013	$453
2012	$392
2011	$336
2010	$296

Annual Patronage Allocations (In Millions)

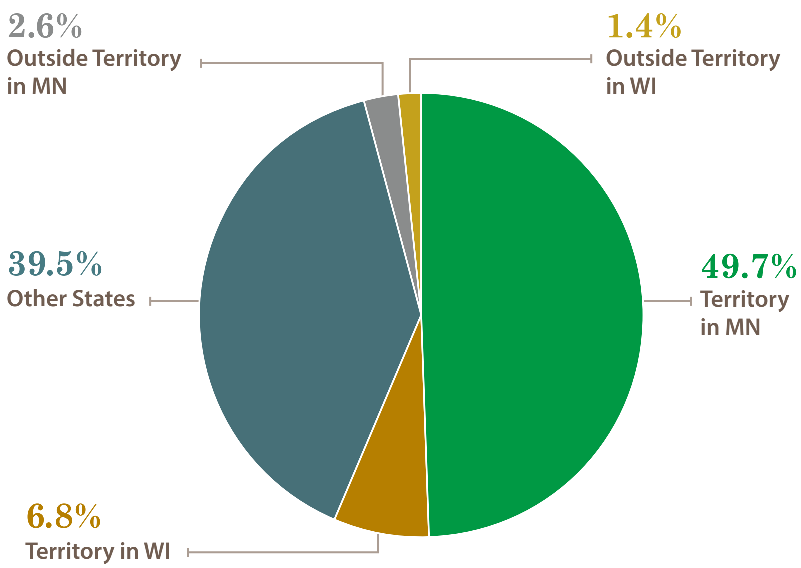
2014	$60.1
2013	$61.7
2012	$55.3
2011	$40.3
2010	$36.8

593 Full-Time Equivalent Team Members

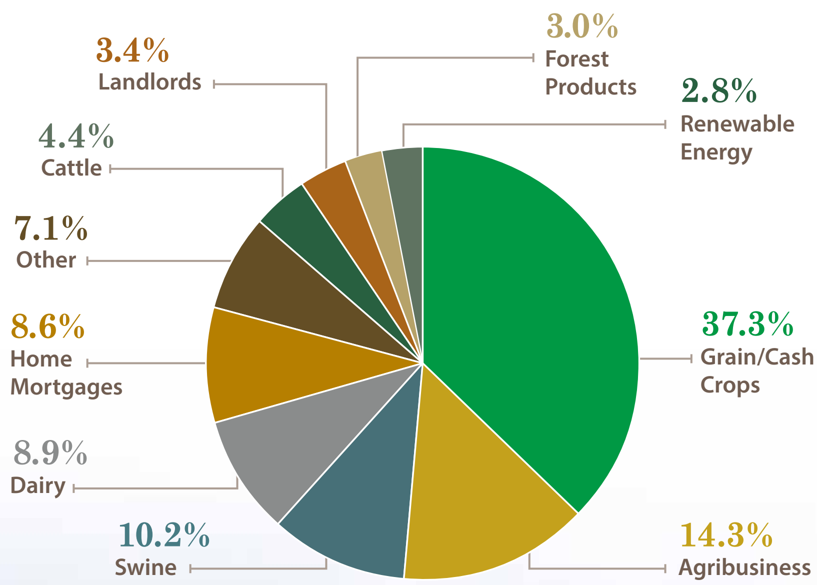
15,400 Number of Voting Stockholders

21,300 AgStar Clients

Volume by Area



Volume by Enterprise



FINANCIAL RESULTS

16 Consolidated Five-Year Summary of Selected Financial Data

17 Management's Discussion and Analysis

31 Report of Management

32 Report on Internal Control Over Financial Reporting

33 Report of Audit Committee

34 Independent Auditor's Report

35 Consolidated Financial Statements

39 Notes to Consolidated Financial Statements

68 Disclosure Information Required by Regulations

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgStar Financial Services, ACA

(Dollars in thousands)

	2014	2013	2012	2011	2010
Statement of Condition Data					
Loans held to maturity	**$ 6,899,646**	$ 6,363,512	$ 5,913,336	$ 5,187,874	$ 4,915,210
Allowance for loan/lease losses	**23,655**	24,725	26,814	26,833	39,312
Net loans held to maturity	**6,875,991**	6,338,787	5,886,522	5,161,041	4,875,898
Loans held for sale	**7,899**	4,470	--	--	--
Net loans	**6,883,890**	6,343,257	5,886,522	5,161,041	4,875,898
Investment in AgriBank, FCB	**142,098**	150,016	141,137	130,150	126,160
Investment securities	**481,936**	462,424	484,092	505,486	467,143
Other property owned	**3,140**	3,315	10,137	6,954	5,851
Other assets	**161,807**	147,344	142,484	142,784	138,539
Total assets	**$ 7,672,871**	$ 7,106,356	$ 6,664,372	$ 5,946,415	$ 5,613,591
Obligations with maturities of one year or less	**$ 6,434,693**	$ 5,950,196	$ 5,692,651	$ 5,040,179	$ 4,768,993
Obligations with maturities greater than one year	**100,000**	100,000	100,000	100,000	100,000
Total liabilities	**6,534,693**	6,050,196	5,792,651	5,140,179	4,868,993
Capital stock and participation certificates	**16,177**	15,912	15,655	14,859	14,125
Preferred stock	**100,000**	100,000	--	--	--
Allocated surplus	**371,004**	339,360	302,789	290,517	265,010
Unallocated surplus	**650,915**	600,888	553,277	500,860	465,463
Accumulated other comprehensive income	**82**	--	--	--	--
Total equity	**1,138,178**	1,056,160	871,721	806,236	744,598
Total liabilities and equity	**$ 7,672,871**	$ 7,106,356	$ 6,664,372	$ 5,946,415	$ 5,613,591
Statement of Income Data					
Net interest income	**$ 187,480**	$ 175,272	$ 158,151	$ 147,565	$ 128,747
Provision for (reversal of) loan/lease losses	**1,084**	(3,078)	7,182	7,400	23,550
Patronage income	**21,684**	21,540	18,338	17,133	19,478
Other expenses, net	**87,231**	79,280	65,297	71,112	46,200
Provision for (benefit from) income taxes	**3,460**	4,480	(3,371)	10,774	11,772
Net income	**$ 117,389**	$ 116,130	$ 107,381	$ 75,412	$ 66,703
Key Financial Ratios					
Return on average assets	**1.6%**	1.7%	1.8%	1.3%	1.2%
Return on average equity	**10.7%**	11.9%	12.9%	9.7%	9.4%
Net interest income as a percentage of average earning assets	**2.7%**	2.7%	2.7%	2.7%	2.5%
Equity as a percentage of total assets	**14.8%**	14.9%	13.1%	13.6%	13.3%
Net charge-offs as a percentage of average earning assets	**0.0%**	0.0%	0.1%	0.4%	0.8%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.1%	0.4%	0.9%
Allowance for loan/lease losses as a percentage of loans	**0.3%**	0.4%	0.5%	0.5%	0.8%
Permanent capital ratio	**15.7%**	15.4%	13.9%	14.6%	15.8%
Total surplus ratio	**15.4%**	15.2%	13.7%	14.4%	15.5%
Core surplus ratio	**12.9%**	12.5%	10.9%	11.2%	11.1%
Other					
Net surplus allocated under nonqualified patronage program	**$ 60,004**	$ 61,598	$ 54,966	$ 40,015	$ 36,409
Redemption in cash of nonqualified written notices of allocation under nonqualified patronage program	**$ 28,360**	$ 25,027	$ 42,694	$ 14,508	$ 1,261
Preferred stock dividends	**$ 6,749**	$ 3,132	$ --	$ --	$ --

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgStar Financial Services, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgStar Financial Services, ACA (the Association) and its subsidiaries, AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the 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.

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, and
- changes in our assumptions for determining the allowance for loan/lease losses, other-than-temporary impairment, and fair value measurements.

AGRICULTURAL AND ECONOMIC CONDITIONS

We are chartered to serve territories in Minnesota and Wisconsin and serve many sectors in agriculture including our primary agricultural industries of grain, swine, and dairy. We also serve the housing, energy, and food processing and distribution segments. Credit quality, delinquencies, and nonaccrual measures showed significant improvement during 2014. The United States Department of Agriculture (USDA) World Agriculture Supply and Demand Estimates (WASDE) report released on January 12, 2015 estimates the 2014 corn crop yield at 171.0 bushels per acre and total production of 14.2 billion bushels. The same report estimated a U.S. soybean yield of 47.8 bushels per acre and total production of 4.0 billion bushels. For Minnesota, the report estimated an average corn yield of 156.0 bushels per acre and an average soybean yield of 42.0 bushels per acre.

The outlook for corn prices in 2015 is less favorable than 2014. In the January 12, 2015 WASDE report, the USDA projects 2014/2015 average corn prices of $3.35 to $3.95 per bushel. This range represents a 10 to 25 percent decrease in the price of corn from the 2013/14 level of $4.46. Globally, feed and other uses are forecast lower, though partially offset by increased ethanol use.

Strong global soybean production led to lower price outlook for 2014/2015. Brazilian production is expected to reach a record 95.5 million bushels due to strong yields in Mato Grosso and Parana. The 2014/15 U.S. season-average farm price forecast for soybeans is $9.45 to $10.95 per bushel compared to the 2013/14 level of $13.00 based on the January 12, 2015 WASDE report.

Profits realized for the primary segments of our portfolio were mostly favorable during 2014, with grain as a notable exception. Less favorable growing conditions within our territory, coupled with generally favorable conditions in the broader Corn Belt, led to tight margins for grain producers. Margins for grain producers will likely remain narrow in 2015 based on current expectations and futures prices. As we receive updated client financial information in 2015, we are expecting some stress in the grain portfolio to occur resulting from lower commodity prices. The reduction in corn prices had a positive impact on input costs for livestock producers and ethanol facilities. Profit margins for swine and dairy producers were generally well above break-even in 2014, although the outlook is less favorable for 2015.

According to the USDA Economic Research Service (ERS), net farm income is forecast at $97.3 billion for 2014, down $31.7 billion (24.6%) from 2013. Net cash income is expected to decline by $22.9 billion, to $108.2 billion when compared to the $131.1 billion in 2013, driven primarily by lower grain prices. The report expects cash expenses to rise to $330.7 billion, up $18 billion from 2013. Rising expenses account for most of the narrowing expected in 2014 farm income. Lower crude oil prices should result in lower energy input costs for livestock and crop producers. Longer term, on the crop side, we could potentially see some reductions in fertilizer prices over time.

Overall conditions have been favorable for agricultural producers and agribusinesses in recent years. Profit margins and credit quality for our agribusiness segment remained stable in 2014. Our current credit quality expectations for 2015 remain favorable. Agricultural related businesses have generally been profitable and fared better during the past several years than companies not closely tied to agriculture. Overall, this portfolio, mainly consisting of power, telecom, and renewable energy, has been performing satisfactorily.

Over the past few years, our home mortgage portfolio has continued to perform better than the overall housing industry. Payment and credit continues to improve and delinquencies and foreclosure numbers have shown improvement after stabilizing in 2010. Continued improvement is expected the next two to three years.

There are positive signs the economy has turned the corner, such as a lower unemployment rate, increased consumer confidence and a low rate of inflation. According to the U.S. Bureau of Labor Statistics, the national unemployment rate dropped to 5.6% in December 2014 compared to 6.7% at the end of 2013. Energy price declines in the 4th quarter of 2014 have also contributed positively to consumer confidence. Inflation rates have declined from 1.7% in 2012 to 0.8% at the end of 2014. Home mortgage interest rates had a declining trend through the last half of 2014. The current economy, low interest rates and housing prices have made the environment very good for new home buyers.

Farm real estate values in our territory were generally slightly below 2013 levels though demand for farm real estate remained steady. Values for transitional and recreational property remain low compared to the peak values previously reached.

We do extensive monitoring of land values in our territory, conducted by licensed real estate appraisers, of a sample of benchmark farms selected to represent our lending footprint. Our most recent internal benchmarking real estate market survey, as of June 30, 2014, indicated that regional agricultural land values in our territory had decreased on average by 4% in the previous 12 months. In addition, qualitative surveys of lending officers, compiled by the Federal Reserve Banks of Chicago, Kansas City, and Minneapolis as of September 30, 2014 indicated flat or declining farmland values. The Banks cited survey findings of a year-over-year change in the value of non-irrigated farmland of negative 5% to positive 1.2%.

Declining land values following sustained periods of land value increases have historically created conditions of considerable risk for collateral-based lenders. Nominal and real (inflation-adjusted) agricultural land values have increased in proportions similar to other asset classes such as stocks and urban residential and commercial land during the last decade, but agricultural land values escaped the valuation declines that other assets suffered during the recession. This is largely because grain farming remained profitable throughout the economic crisis period. As profit margins in grain tighten, it is likely that farmland values will continue to decline in the future. We have maintained a disciplined approach to our real estate underwriting standards.

Our credit risk policies emphasize loan repayment capacity in addition to conservative assessments of collateral values that secure loans. Although Farm Credit Administration (FCA) Regulations allow real estate mortgage loans of up to 85% of appraised value, our underwriting standards generally limit lending to no more than 65% of sustainable value (based on crop production history) at origination for agricultural production land. While underwriting exceptions on loan-to-appraised-value are sometimes granted, in such cases offsetting strengths are generally present in other areas.

Some of our core credit objectives include working with clients to promote risk management, ensure high quality financial statements and production reports, encourage disciplined marketing plans, and provide individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

LOANS HELD TO MATURITY

Loan Portfolio

Total loans held to maturity and finance and conditional sales leases (hereinafter collectively referred to as loans) were $6.9 billion at December 31, 2014, an increase of $536.1 million from December 31, 2013. The components of loans are presented in the following table (in thousands):

As of December 31	**2014**	2013	2012
Accrual loans:			
Real estate mortgage	**$ 3,448,233**	$ 3,160,937	$ 2,782,812
Production and intermediate term	**1,913,730**	1,738,395	1,732,881
Agribusiness	**718,851**	638,625	608,641
Other	**767,493**	686,158	637,411
Nonaccrual loans	**51,339**	139,397	151,591
Total loans	**$ 6,899,646**	$ 6,363,512	$ 5,913,336

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

The increase in total loans from December 31, 2013 is due to our continued focus on capitalizing on growth opportunities in our correspondent lending programs in our real estate mortgage portfolio. This increase was partially offset by repayments made by a certain segment of our clients in the swine and renewable fuels industries. The decrease in nonaccrual loans was due to settling volume mainly through upgrading, payoffs, or paydowns on certain accounts in the dairy, swine, beef, or bond segments.

We offer variable, fixed, capped, indexed, and adjustable interest rate loan and lease 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.

Portfolio Distribution

We are chartered to serve certain counties in Minnesota and Wisconsin. At December 31, 2014, approximately 49.7% of our loan portfolio was within our territory in Minnesota, 6.8% was within our territory in Wisconsin, 2.6% was in Minnesota outside our territory, and 1.4% was in Wisconsin outside our territory.

Our loan portfolio is concentrated in grain, dairy, and swine production, with 56.4% of the total in these categories. Due to the high concentration in grain production, the commercial loan portfolio exhibits some seasonality. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest and then increase throughout the year as clients borrow for operating and capital needs. More information on commodities is included in Note 3.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2013. Adversely classified loans decreased to 1.8% of the portfolio at December 31, 2014, from 2.9% of the portfolio at December 31, 2013. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan/lease losses.

Most dairy producers experienced improved margins during 2014 compared to 2013 due to declining feed costs and higher milk prices. For the year, most operations will likely experience good profitability, although feed costs will be variable across farms. Dairy exports are expected to decline in 2015 and will reduce milk prices. This will reduce margins for some of our clients.

Pork production has been profitable from 2010 to 2014 despite higher feed costs during certain periods these past five years. Strong export markets along with the use of contracting and hedging for risk management are helping most producers to remain profitable. Volatility will continue to be the norm and margin management is key to on-going viability. There have been opportunities for our clients to lock in positive margins for 2015 and many clients have taken advantage of these opportunities. The Porcine

Epidemic Diarrhea virus (PEDv) presented some challenges for swine producers earlier in the year, including some clients within our portfolio, by adversely impacting production and profitability.

The volatility of corn and soybean prices creates an added risk for producers to manage, particularly for the protein sectors of our portfolio.

Crop producers enjoyed several years of strong income driven by export demand and the expanded use of grains for bio-fuel production. Credit quality in this segment is strong. With generally favorable conditions for U.S. corn and soybean production in 2014, prices decreased significantly this past year and, as such, we expect grain producer incomes to be break-even to moderate losses. Strong equity positions should be maintained, but we expect to see tightening margins pose challenges for some producers during the next 12 to 24 months. Domestic stocks of corn and soybeans are at solid levels. Grain producers in Minnesota and Wisconsin generally experienced a fair year in 2014.

Conditions the past two to three years have been favorable overall for agricultural producers resulting in positive performance generally for agribusinesses. Ethanol assets are part of the agribusiness segment and credit quality in this segment has improved to sound levels as margins improved due to lower corn prices. Most ethanol assets were very profitable in 2014.

In addition, significant steps to manage risk in the portfolio have been taken through enhancement of risk management and continuing efforts to promote financial counseling.

In certain circumstances, we use various government guarantee programs to reduce the risk of loss in our portfolio. At December 31, 2014, $86.3 million of our loans were, to some level, guaranteed under these government programs. In addition, at December 31, 2014, $469.7 million of our loans were guaranteed through the Federal Agricultural Mortgage Corporation (Farmer Mac) Standby Commitment Program.

Excluded in the ratios and volumes as discussed in this section are our investment securities held-to-maturity. At December 31, 2014, these investment securities totaled $460.9 million, consisting of $414.9 million in mortgage-backed securities issued by Farmer Mac or guaranteed by the Small Business Administration (SBA) or by the USDA and $46.0 million in asset-backed securities, issued and guaranteed by SBA or USDA. Had this volume been included, the adversely classified asset ratio would be 1.6% at December 31, 2014, compared to 2.7% at December 31, 2013. Additional investment securities information is included in Notes 5 and 17.

Risk Assets

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

As of December 31	**2014**	2013	2012
Loans:			
Nonaccrual	**$ 51,339**	$ 139,397	$ 151,591
Accruing restructured	**22,892**	2,101	102
Accruing loans 90 days or more past due	**304**	--	126
Total risk loans	**74,535**	141,498	151,819
Other property owned	**3,140**	3,315	10,137
Total risk assets	**$ 77,675**	$ 144,813	$ 161,956
Risk loans as a percentage of total loans	**1.1%**	2.2%	2.6%
Nonaccrual loans as a percentage of total loans	**0.7%**	2.2%	2.5%
Total delinquencies as a percentage of total loans	**0.5%**	0.8%	1.5%

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

The decrease in nonaccrual loans was due to settling volume mainly through upgrading, payoffs, or paydowns on certain accounts in the dairy segment, but also in the swine, beef, and bond segments. Nonaccrual loans are at an acceptable level at December 31, 2014 and 72.4% of our nonaccrual loans were current.

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

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

Allowance for Loan/Lease Losses

The allowance for loan/lease losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan/lease losses based on 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.

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

As of December 31	**2014**	2013	2012
Allowance as a percentage of:			
Loans	**0.3%**	0.4%	0.5%
Nonaccrual loans	**46.1%**	17.7%	17.7%
Total risk loans	**31.7%**	17.5%	17.7%
Net charge-offs as a percentage of average earning assets	**0.0%**	0.0%	0.1%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.1%
Adverse assets to risk funds	**11.2%**	18.6%	31.1%

In the years presented, adverse accounts have paid down or off, been upgraded, or have taken charge-offs and our allowance levels reflect this continued credit quality improvement in our portfolio. In our opinion, the allowance for loan/lease losses was reasonable in relation to the risk in our loan portfolio at December 31, 2014.

Additional loan information is included in Notes 3, 13, 14, 16, and 17.

LOANS HELD FOR SALE

Beginning in 2013, we have loans held for sale under a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or 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. The volume in this program was $7.9 million and $4.5 million at December 31, 2014 and 2013, respectively.

INVESTMENT SECURITIES AND OTHER INVESTMENTS

In addition to loans and leases, we hold investment securities. Our investments primarily include mortgage-backed securities issued by Farmer Mac or guaranteed by SBA or by USDA and asset-backed securities issued and guaranteed by SBA or USDA.

Investment securities held-to-maturity totaled $460.9 million, $462.4 million, and $484.1 million at December 31, 2014, 2013, and 2012, respectively.

Investment securities available-for-sale, consisting of mortgage backed securities, totaled $21.0 million 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.

We, together with certain other Farm Credit institutions, are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Our total commitment is $20.0 million which may be drawn anytime during the first five years of the fund. As of December 31, 2014 our investment is $757 thousand.

Additional investment securities information is included in Notes 5 and 17.

RESULTS OF OPERATIONS

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

For the year ended December 31	**2014**	2013	2012
Net income	**$ 117,389**	$ 116,130	$ 107,381
Return on average assets	**1.6%**	1.7%	1.8%
Return on average equity	**10.7%**	11.9%	12.9%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets as discussed in the Loan Portfolio and Investment Securities sections, and
- changes in stockholders' equity as discussed in the Capital Adequacy section.

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

	For the year ended December 31			Increase (decrease) in net income	
	2014	2013	2012	**2014 vs 2013**	2013 vs 2012
Net interest income	**$ 187,480**	$ 175,272	$ 158,151	**$ 12,208**	$ 17,121
Provision for (reversal of) loan/lease losses	**1,084**	(3,078)	7,182	**(4,162)**	10,260
Patronage income	**21,684**	21,540	18,338	**144**	3,202
Other income, net	**35,778**	38,467	45,962	**(2,689)**	(7,495)
Operating expenses	**123,009**	117,747	111,259	**(5,262)**	(6,488)
Provision for (benefit from) income taxes	**3,460**	4,480	(3,371)	**1,020**	(7,851)
Net income	**$ 117,389**	$ 116,130	$ 107,381	**$ 1,259**	$ 8,749

Net Interest Income

The following table quantifies changes in net interest income (in thousands):

	2014 vs 2013	2013 vs 2012
Changes in AgriBank, FCB note payable and earning assets	**$ 17,895**	$ 20,317
Changes in rates on AgriBank, FCB note payable and earning assets	**(6,164)**	(4,988)
Changes due to asset securitization	**257**	438
Changes in nonaccrual income and other	**220**	1,354
Net change	**$ 12,208**	$ 17,121

Net interest income included income on nonaccrual loans that totaled $5.7 million, $5.3 million, and $4.5 million in 2014, 2013, and 2012, 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% in 2014, 2013, and 2012. We expect margins to compress in the future if interest rates rise, competition increases, and growth in our correspondent lending programs continue. We expect our loan and lease products to remain competitive in the market place in 2015.

Provision for (Reversal of) Loan/Lease Losses

The fluctuation in the provision for (reversal of) loan/lease losses is related to our estimate of losses in our portfolio for the applicable years. Refer to Note 3 for additional discussion.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank, FCB (AgriBank). AgriBank's Board of Directors sets the patronage rate. The patronage rates were 33.5 basis points, 34.5 basis points, and 32 basis points in 2014, 2013, and 2012, respectively. We recorded patronage income of $19.7 million, $19.2 million, and $16.2 million in 2014, 2013, and 2012, respectively.

We also participate in a program with AgriBank in which we sell participation interests in certain real estate loans to AgriBank. As part of this Asset Pool 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. Patronage declared on these pools is solely at the discretion of the AgriBank Board of Directors. We recorded asset pool patronage income of $1.9 million, $2.3 million, and $2.1 million in 2014, 2013, and 2012, respectively.

Other Income, Net

The change in other income, net is caused by a variety of factors. Crop insurance income increased $1.4 million as a result of receiving profit share payments in 2014 and an increase in acres covered by insurance, partially offset by reduced corn and soybean commodity prices affecting commission levels. In addition net expenses for acquired property decreased $2.0 million. These positive variances were offset by $6.4 million in lower loan/lease fees, title insurance fee income, and outside fee appraisal income.

We originate rural home loans for resale in the secondary market. We sold loans in the secondary market totaling $37.2 million, $56.2 million, and $77.1 million in 2014, 2013, and 2012, respectively. The fee income from this activity totaled $0.8 million, $1.2 million, and $1.5 million in 2014, 2013, and 2012, respectively.

Operating Expenses

The following presents a comparison of operating expenses by major category and the net pre-tax operating rate (total on-going expenses less financially related services income and fees earned, divided by average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2014**	2013	2012
Salaries and employee benefits	**$ 83,776**	$ 81,657	$ 78,161
Purchased and vendor services	**5,688**	6,364	6,286
Communications	**1,381**	1,367	1,604
Occupancy and equipment	**11,282**	10,639	9,569
Advertising and promotion	**6,375**	5,504	5,481
Examination	**1,523**	1,430	1,569
Farm Credit System insurance	**7,158**	5,615	2,660
Other	**5,826**	5,171	5,929
Total operating expenses	**$ 123,009**	$ 117,747	$ 111,259
Net pre-tax operating rate	**1.1%**	1.1%	1.1%

Salary and benefits expense increased $2.1 million primarily related to normal salary increases, separation compensation, and increased variable compensation expense resulting from favorable business results, partially offset by lower pension related expenses.

Occupancy and equipment expense increased $643 thousand due to higher technology related depreciation and maintenance expenses.

Advertising and promotion expenses increased $871 thousand due to higher member relations related expenses and AgStar Fund expenses.
Farm Credit System insurance expense increased $1.5 million in 2014 primarily due to an increase in the premium rate charged on accrual loans from 10 basis points in 2013 to 12 basis points in 2014 and from 20 basis points in 2013 to 22 basis points in 2014 for nonaccrual loans. For 2015, the premium on accrual loans is currently projected to increase to 13 basis points and 23 basis points for nonaccrual loans.

The change in other expense is primarily related to increases in certain third party incentive program expenses, partially offset by higher expense offsets from our facilitating role in providing services to the ProPartners alliance.

Provision for (Benefit from) Income Taxes

The variance in provision for (benefit from) income taxes is related to a decrease in the pre-tax income of the taxable entities, partially offset by a decrease in our patronage deductions. Refer to Note 11 for additional discussion.

FUNDING AND LIQUIDITY

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 8. The following table summarizes note payable information (dollars in thousands):

For the year ended December 31	**2014**	2013	2012
Average balance	**$ 5,890,395**	$ 5,556,712	$ 5,068,481
Average interest rate	**1.6%**	1.6%	1.8%

Our other source of lendable funds is from unallocated surplus. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

We have $100 million of subordinated notes due in 2025 with a fixed interest rate of 9.0% per annum. These notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. At our option, we may redeem all or some of the notes at any time on or after a date 10 years from the closing date (March 2010). The transaction increased our regulatory permanent capital and total surplus ratios under the FCA Regulations and positions us for the future.

Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2014, we had $535.9 million available under our line of credit. We generally apply excess cash to this line of credit.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, total surplus, and core surplus, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 10.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $469.7 million, $426.8 million, and $244.1 million at December 31, 2014, 2013, and 2012, respectively. We paid Farmer Mac commitment fees totaling $2.0 million, $1.6 million, and $1.2 million in 2014, 2013, and 2012, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income. Sales of loans to Farmer Mac under this agreement were $432 thousand in 2012. There were no sales of loans to Farmer Mac under this agreement in 2014 or 2013. We also purchase mortgage-backed security investments from Farmer Mac. These investments are held-to-maturity, are included in “Investment securities” on the Consolidated Statements of Condition, and totaled $267.4 million, $272.4

million, and $302.7 million as of December 31, 2014, 2013, and 2012, respectively. Investments available-for-sale, also included in "Investment securities" on the Consolidated Statements of Condition, totaled $21.0 million as of December 31, 2014. We held no investments available-for-sale prior to 2014.

RuraLiving® is a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or 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.

CAPITAL ADEQUACY

Total equity increased $82.0 million from December 31, 2013 primarily due to net income for the year and an increase in capital stock and participation certificates, partially offset by patronage and dividend distributions.

Stockholders' equity position information is as follows (dollars in thousands):

As of December 31	**2014**	2013	2012
Equity	**$ 1,138,178**	$ 1,056,160	$ 871,721
Surplus as a percentage of equity	**89.8%**	89.0%	98.2%
Permanent capital ratio	**15.7%**	15.4%	13.9%
Total surplus ratio	**15.4%**	15.2%	13.7%
Core surplus ratio	**12.9%**	12.5%	10.9%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan/lease losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet stockholder needs and protect stockholder interests, both now and in the future.

We have $100 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200 million for subordinated debt issuance. At our option, we may redeem all or some of the Notes, at any time on or after a date 10 years from the closing date (March 2010). This debt is subordinate to all other creditor debt, including general creditors, but senior to all classes of stock. Additional information is included in Note 9. The issuance proceeds increased our regulatory permanent capital and total surplus ratios.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, total surplus, and core surplus, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of Series A-1 preferred stock is discussed further in Note 10.

At December 31, 2014, our permanent capital, total surplus, and core surplus ratios exceeded the regulatory minimum requirements.

Additional discussion of these regulatory ratios is included in Note 10.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2014, our optimum permanent capital target was 12.25%.

On January 18, 2012, the Board of Directors authorized the retirement of the remainder of the $17.8 million of 2002 nonqualified patronage allocations. This retirement was substantially completed by February 1, 2012. On September 19, 2012, the Board of Directors authorized the retirement of the remainder of the $22.8 million of 2003 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2012. On September 18, 2013, the Board of Directors authorized the retirement of the remainder of the $24.7 million of 2004 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2013. On September 18, 2014, the Board of Directors authorized the retirement of the remainder of the $28.9 million of 2005 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2014. The timing of these payouts occurred within the Board of Directors' targeted 7-10 year retirement timeframe. On December 18, 2013, the Board of Directors authorized the payment of $88 thousand of dividends on approved transactions, to be paid by March 15, 2014. On December 18, 2014, the Board of Directors authorized the payment of $609 thousand of dividends on approved transactions, to be paid by March 15, 2015. The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position. Further information regarding our patronage distributions is included in Notes 10 and 11.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional stockholders' equity information is included in Note 10.

ACCUMULATED OTHER COMPREHENSIVE INCOME

Our investment portfolio includes available-for-sale securities that are carried at fair value. Unrealized gains and losses on the available-for-sale investment securities that are not other-than-temporarily impaired are reported as a separate component of shareholders' equity. During 2014, the change in net unrealized gains on all investment securities totaled $82 thousand of other comprehensive income, reflecting unrealized gains from changes in interest rates.

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 8, 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, and bank profit, and, if applicable, a risk premium component. However, in the periods presented, we were not subject to the risk premium component.

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

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. On March 5, 2014, the AgriBank Board of Directors approved an amendment to the AgriBank capital plan which reduced the base required stock investment for all affiliated associations, including AgStar Financial Services, ACA from 2.5% to 2.25% effective March 31, 2014. As of December 31, 2014, we were required to maintain a stock 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. 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, 2014, $111.3 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $30.8 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.

Patronage

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

- patronage on our note payable with AgriBank, and
- patronage based on the balance and net earnings of loans in the AgriBank Asset Pool program.

Patronage income for 2012 and 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 was paid in cash.

Purchased Services

We purchase various services from AgriBank including:

- certain information system services,
- certain financial services,
- certain accounting and reporting services, and
- certain retail product processing and support services.

The total cost of services we purchased from AgriBank was $1.9 million, $1.8 million, and $1.8 million in 2014, 2013, and 2012, respectively.

OTHER RELATIONSHIPS AND PROGRAMS

Other Relationships

ProPartners Financial: We have an alliance with nine other Farm Credit association partners to provide producer financing for agribusiness companies under the trade name ProPartners Financial (ProPartners). ProPartners is directed by representatives from participating associations and has employees in California, Illinois, Indiana, Kansas, Minnesota, North Dakota, Tennessee, and Washington. The income, expense, and loss sharing arrangements are based on each association's participation interest in ProPartners volume. Each association's allocation was established according to a prescribed formula which included risk funds of the associations. We had $149.6 million, $131.0 million, and $112.7 million of ProPartners volume at December 31, 2014, 2013, and 2012, respectively. We also had $209.7 million of available commitment on ProPartners loans at December 31, 2014.

As the facilitating association for ProPartners, we provide, and are compensated for, various support functions. This includes human resources, accounting, payroll, reporting, and other finance functions.

Federal Agricultural Mortgage Corporation: We have a financial relationship with Farmer Mac to provide a standby commitment program for the repayment of principal and interest on certain loans. As of December 31, 2014, $469.7 million of our loans were in this program. Additionally, we are an approved mortgage loan central servicer for Farmer Mac. As of December 31, 2014, the total loan volume being serviced was $177.2 million. Income from this servicing for the year ended December 31, 2014 totaled $370 thousand. We also purchase mortgage-backed security investments from Farmer Mac. These investments are classified as held-to-maturity or available-for-sale. The investments held-to-maturity totaled $267.4 million, $272.4 million, and $302.7 million as of December 31, 2014, 2013, and 2012, respectively. The investments available-for-sale totaled $21.0 million as of December 31, 2014. We held no investments available-for-sale prior to 2014. These investments are all included in "Investment securities" in the Consolidated Statements of Condition.

CoBank: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. CoBank provides direct loan funds to associations in its chartered territory and makes loans to cooperatives and other eligible borrowers. CoBank also provides certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes an $8 million back-up cash management settlement facility. As part of this relationship, our equity investment in CoBank was $796 thousand, $814 thousand, and $871 thousand at December 31, 2014, 2013, and 2012, respectively.

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, 2014, 2013, and 2012, our investment in Foundations was $83 thousand. The total cost of services we purchased from Foundations was $391 thousand, $393 thousand, and $334 thousand in 2014, 2013, and 2012, respectively.

FCC Services: We have a business relationship with FCC Services to provide various risk and insurance management, vehicle purchases, and training services. Additionally we have a strategic support agreement with FCC Services to enable FCC Services to provide reinsurance to crop insurance companies that includes a loss/gain sharing agreement. Included in Other assets in the Consolidated Statements of Condition is $4.5 million, net, to help support our total relationship. In net, we paid $3.1 million, $3.9 million, and $5.3 million in 2014, 2013, and 2012, respectively, to FCC Services for insurances, memberships, training, and losses under the loss/gain sharing agreement.

Other Entities

We have three limited liability corporations (LLC's) established for the purpose of acquiring and selling the collateral acquired through the loan collection process. The names of these LLC's are: Northwest Sand and Gravel Acquisition, LLC, Dairy Acquisition I, LLC and Cranberry Acquisition, LLC.

We have a limited liability partnership called 4 Rivers, LLP established for the purpose of negotiating and entering into contracts on behalf of the partners under which each partner will sell authorized insurance products and services as authorized under Section 4.29 of the Farm Credit Act of 1971 as amended, and perform such other activities as may be necessary, advisable, or incidental to the carrying out of this purpose. This is a partnership that was formed with United FCS, FLCA, 1st Farm Credit Services, FLCA and Badgerland Financial, FLCA. All four partners have equal ownership in the partnership and share costs equally. We do not receive any management fees from the partnership. The legal address of the partnership is 1921 Premier Drive, Mankato, MN 56001.

We have a limited liability corporation established for the purpose of facilitating bond transactions with other financial institutions called Rural Funding, LLC. We do not receive any management fees from the limited liability corporation. The legal address of the limited liability corporation is 1921 Premier Drive, Mankato, MN 56001.

We, together with certain other Farm Credit institutions, are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Refer to Investment Securities and Other Investments section for further discussion.

These entities have no material impact on our consolidated financial statements.

Programs

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

AgStar Fund for Rural America: Created in 2001, the AgStar Fund for Rural America (Fund) helps create stability and strength by investing in quality of life programs that enhance life in agriculture and rural America for rural residents and their communities. In 2014, the Fund awarded $928 thousand through scholarships, grants, and sponsorships to support ag-related programs. The Fund is managed by an internal committee.

Highlights of the 2014 Fund activities include:

- $158 thousand in grants to support local organizations that benefit agriculture and rural residents, supporting education, the environment, technology, and quality of life.
- $173 thousand to the Emergency Response Departments providing rural communities with response equipment, technology, and turnout gear.
- $49 thousand to high school agriculture classrooms, funding the technology and equipment needs in agricultural education.
- Awarded $250 thousand to South Dakota State University for a new Swine Education and Research Facility.

Mission Related Investments: The public mission of the System has always been to provide financing to agriculture and rural areas. Our primary focus has always been and will remain financing production agriculture. Because of the changing needs of rural America, we have placed additional emphasis on investing in rural communities and businesses by creating the Rural Capital Network. At the end of 2014, we had invested $168.8 million in bonds, compared to $161.5 million and $139.9 million at the end of 2013 and 2012, respectively. This unit makes investments in rural America through the purchase of bonds, focusing on rural businesses, health care, and housing facilities.

We continue to have minority investments in a few small-scale local economic development corporations and have invested $75 thousand in local economic development corporations at the end of 2014, compared to $78 thousand and $91 thousand at the end of 2013 and 2012, respectively.

RuraLiving®: RuraLiving® is a rural residential mortgage program designed to provide qualified borrowers with additional options for competitive rate financing of rural homes in small towns or 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.

Patronage: Since 1998, our Board of Directors has allocated $513.3 million of nonqualified patronage dividends to our member stockholders. Our nonqualified patronage allocation is based on a Board of Directors resolution requiring an allocation of annual net patronage-eligible earnings. For 2014, this amounted to $60.1 million, spread between our member stockholders. Allocated patronage equities have no voting rights and are redeemed at the sole discretion of the Board of Directors.

AgriHedge®: In 2014 we began offering the AgriHedge product to our clients. The AgriHedge product is an effective way for clients to hedge their crop revenue by allowing them to establish a hedge price on their corn, soybeans, or wheat by combining an operating loan with a third-party commodity swap product. This product combination enables our client to hedge commodity price risk without the typical upfront cash flows for fees and on-going margin calls (including costs of borrowing) of a traditional swap product. Fees incurred are paid by the farmer when the contract is settled and cash is received or paid. Eligible participants must meet certain credit criteria and the hedges must be for their own crop.

Fleet Management: We offer fleet management services to small and mid-sized agribusinesses. Depending on the program selected, services range from customized vehicle ordering, combined with lease financing, to full service program options of providing fuel cards, maintenance management, 24/7 emergency roadside assistance, license renewal services, fleet reporting, and vehicle disposal service. Additionally, we make available customized vehicle ordering and leasing options to Farm Credit institutions. At the end of 2014, we have ordered vehicles for 27 System entities. We have manufacturer's fleet codes for the following brands: Ford, General Motors, Chrysler, Toyota, Nissan, Mazda, Volvo, and Subaru.

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

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.

Business Units

Agri-Access®: We have entered into agreements with certain financial institutions to provide correspondent lending programs under the trade name Agri-Access®, which operates as a unit of AgStar Financial Services, ACA. Agri-Access focuses primarily on purchasing participations in agricultural real estate loans, rural home loans, and leases. Agri-Access also services loan portfolios for other institutional investors. These financial services firms are dispersed throughout the United States. The main Agri-Access contact office is located in Des Moines, Iowa. We also have contact offices in Meridian, Idaho and Canyon, Texas. Further information can be obtained at www.agri-access.com.

Client Solutions Team: We provide operating, term, and real estate loans, leases, crop insurance, life insurance, and consulting services to over 14,600 core market clients and producers who are typically in the grain, dairy, and swine industries. This structure enables our team to collaborate with other professionals with specialized knowledge, depending on the client's specific goals and unique needs.

Our industry specialists possess broad, extensive knowledge and experience in their areas of expertise, providing financing to commercial producers, agribusinesses, and processors, primarily focused in swine, dairy, and bio-energy.

Our home mortgage services team provides home financing options for rural residents living in the country or in communities with populations of 2,500 or less. The focal points of this segment are mortgages to buy, build, or refinance residences or acreages. Title insurance, appraisal services, and home equity loans are also offered.

Our consulting team provides business advice and professional services such as family business consulting, succession planning, and estate planning. Services are provided across all commodities with particular expertise in the dairy, swine, and cash grain industry segments.

Capital Markets: The Capital Markets team focuses on relationships with commercial banks, Farm Credit institutions, and other lending partners to buy loan participations and partner in syndicated loan transactions. This specialized team provides a national marketing vehicle to gain improved access to the agribusiness and commercial producer loan market, and provides portfolio diversity, earnings, and market intelligence to the organization.

Rural Capital Network: The Rural Capital Network team is devoted to supporting community and economic development, infrastructure needs, revitalization projects, and emerging agribusinesses in rural America. Rural Capital Network invests in projects through the purchase of bonds issued by local communities, organizations, or businesses, focusing on investing in critical access hospitals, assisted-living facilities, rural rental multi-family housing, business expansions, and other similar enterprises. In December 2014, an alliance was formed with CoBank, ACB to fund rural facilities across the United States. This alliance will help promote jobs, economic benefits and enhance the quality of life in rural communities. This alliance will partner with other Farm Credit institutions and local community banks to provide attractive and reliable short and long term financing options to fully fund projects of significant size.

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 as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To 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,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The public comment period ended on 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 as follows:

- To strengthen the safety and soundness of System Banks and Associations,
- To ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System Banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System Banks, and
- To 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.

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

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

REPORT OF MANAGEMENT

AgStar Financial Services, ACA

We prepare the consolidated financial statements of AgStar Financial Services, 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 and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

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

March 11, 2015

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgStar Financial Services, ACA

The AgStar Financial Services, 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, 2014. 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, 2014, 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, 2014.

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

March 11, 2015

REPORT OF AUDIT COMMITTEE

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of five members of the Board of Directors of AgStar Financial Services, 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, 2014, 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, 2014.

Wesley Beck
Chairperson of the Audit Committee
AgStar Financial Services, ACA

Other Committee Members:
Lawrence Romuald, Vice Chairperson of the Audit Committee
Terry Ebeling
Larry Fischer
Kevin Koppendrayer

March 11, 2015

pwc

Independent Auditor's Report

To the Board of Directors of AgStar Financial Services, ACA,

We have audited the accompanying consolidated financial statements of AgStar Financial Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2014, 2013 and 2012, and the related consolidated statements of comprehensive income, changes in stockholders' 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 AgStar Financial Services, ACA and its subsidiaries at December 31, 2014, 2013 and 2012, 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 11, 2015

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

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA

(in thousands)

As of December 31	**2014**	2013	2012
ASSETS			
Loans held to maturity	**$ 6,899,646**	$ 6,363,512	$ 5,913,336
Allowance for loan/lease losses	**23,655**	24,725	26,814
Net loans held to maturity	**6,875,991**	6,338,787	5,886,522
Loans held for sale	**7,899**	4,470	--
Net loans	**6,883,890**	6,343,257	5,886,522
Investment securities (including $20,997, $0, and $0 at fair value)	**481,936**	462,424	484,092
Assets held for lease, net	**41,566**	36,452	35,296
Accrued interest receivable	**54,899**	49,456	45,029
Investment in AgriBank, FCB	**142,098**	150,016	141,137
Premises and equipment, net	**17,388**	16,793	18,128
Other property owned	**3,140**	3,315	10,137
Other assets	**47,954**	44,643	44,031
Total assets	**$ 7,672,871**	$ 7,106,356	$ 6,664,372
LIABILITIES			
Note payable to AgriBank, FCB	**$ 6,340,682**	$ 5,862,433	$ 5,610,487
Subordinated debt	**100,000**	100,000	100,000
Accrued interest payable	**24,367**	22,787	22,628
Deferred tax liabilities, net	**6,730**	7,061	8,751
Other liabilities	**62,914**	57,915	50,785
Total liabilities	**6,534,693**	6,050,196	5,792,651
Contingencies and commitments	**--**	--	--
EQUITY			
Capital stock and participation certificates	**16,177**	15,912	15,655
Preferred stock	**100,000**	100,000	--
Allocated surplus	**371,004**	339,360	302,789
Unallocated surplus	**650,915**	600,888	553,277
Accumulated other comprehensive income	**82**	--	--
Total equity	**1,138,178**	1,056,160	871,721
Total liabilities and equity	**$ 7,672,871**	$ 7,106,356	$ 6,664,372

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgStar Financial Services, ACA

(in thousands)

For the year ended December 31	**2014**	2013	2012
Interest income	**$ 288,597**	$ 271,082	$ 257,851
Interest expense	**101,117**	95,810	99,700
Net interest income	**187,480**	175,272	158,151
Provision for (reversal of) loan/lease losses	**1,084**	(3,078)	7,182
Net interest income after provision for (reversal of) loan/lease losses	**186,396**	178,350	150,969
Other income			
Patronage income	**21,684**	21,540	18,338
Net operating lease income	**1,646**	1,634	1,839
Financially related services income	**17,721**	16,911	22,471
Fee and miscellaneous income, net	**16,411**	19,922	21,652
Total other income	**57,462**	60,007	64,300
Operating expenses			
Salaries and employee benefits	**83,776**	81,657	78,161
Farm Credit System insurance	**7,158**	5,615	2,660
Other operating expenses	**32,075**	30,475	30,438
Total operating expenses	**123,009**	117,747	111,259
Income before income taxes	**120,849**	120,610	104,010
Provision for (benefit from) income taxes	**3,460**	4,480	(3,371)
Net income	**$ 117,389**	$ 116,130	$ 107,381
Other comprehensive income			
Investment securities available-for-sale:			
Not-other-than-temporarily-impaired investments	**$ 82**	$ --	$ --
Total other comprehensive income	**82**	--	--
Comprehensive income	**$ 117,471**	$ 116,130	$ 107,381

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AgStar Financial Services, ACA

(in thousands)

	Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Income	Total Equity
Balance as of December 31, 2011	$ --	$ 14,859	$ 290,517	$ 500,860	$ --	$ 806,236
Net income	--	--	--	107,381	--	107,381
Net surplus allocated under nonqualified patronage program	--	--	54,966	(54,964)	--	2
Redemption of prior year allocated patronage	--	--	(42,694)	--	--	(42,694)
Capital stock and participation certificates issued	--	2,084	--	--	--	2,084
Capital stock and participation certificates retired	--	(1,288)	--	--	--	(1,288)
Balance as of December 31, 2012	--	15,655	302,789	553,277	--	871,721
Net income	--	--	--	116,130	--	116,130
Net surplus allocated under nonqualified patronage program	--	--	61,598	(61,598)	--	--
Redemption of prior year allocated patronage	--	--	(25,027)	--	--	(25,027)
Preferred stock issued	100,000	--	--	(3,701)	--	96,299
Preferred stock dividend	--	--	--	(3,132)	--	(3,132)
Other distribution	--	--	--	(88)	--	(88)
Capital stock and participation certificates issued	--	1,878	--	--	--	1,878
Capital stock and participation certificates retired	--	(1,621)	--	--	--	(1,621)
Balance as of December 31, 2013	100,000	15,912	339,360	600,888	--	1,056,160
Net income	**--**	**--**	**--**	**117,389**	**--**	**117,389**
Other comprehensive income	**--**	**--**	**--**	**--**	**82**	**82**
Net surplus allocated under nonqualified patronage program	**--**	**--**	**60,004**	**(60,004)**	**--**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(28,360)**	**--**	**--**	**(28,360)**
Preferred stock dividend	**--**	**--**	**--**	**(6,749)**	**--**	**(6,749)**
Other distribution	**--**	**--**	**--**	**(609)**	**--**	**(609)**
Capital stock and participation certificates issued	**--**	**1,522**	**--**	**--**	**--**	**1,522**
Capital stock and participation certificates retired	**--**	**(1,257)**	**--**	**--**	**--**	**(1,257)**
Balance as of December 31, 2014	**$ 100,000**	**$ 16,177**	**$ 371,004**	**$ 650,915**	**$ 82**	**$ 1,138,178**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgStar Financial Services, ACA
(in thousands)

For the year ended December 31	2014	2013	2012
Cash flows from operating activities			
Net income	**$ 117,389**	$ 116,130	$ 107,381
Depreciation on premises and equipment	**4,358**	4,853	4,258
Gain on sale of premises and equipment	**(607)**	(760)	(675)
Depreciation on assets held for lease	**8,882**	8,405	8,088
Gain on disposal of assets held for lease	**(59)**	(119)	(184)
Increase in loans held for sale, net	**(3,429)**	(4,470)	--
Amortization of premiums on loans and investment securities	**2,215**	1,160	1,073
Provision for (reversal of) loan/lease losses	**1,084**	(3,078)	7,182
Stock patronage received from Farm Credit Institutions	**(4,258)**	(8,822)	(8,161)
(Gain) loss on other property owned	**(567)**	2,004	1,484
Loss on derivative activities	**558**	--	--
Changes in operating assets and liabilities:			
Increase accrued interest receivable	**(6,386)**	(5,373)	(6,967)
Increase other assets	**(3,887)**	(669)	(72)
Increase (decrease) accrued interest payable	**1,580**	159	(4,840)
Increase other liabilities	**5,896**	5,171	2,203
Net cash provided by operating activities	**122,769**	114,591	110,770
Cash flows from investing activities			
Increase in loans, net	**(540,067)**	(450,225)	(731,279)
Redemptions (purchases) of investment in AgriBank, FCB, net	**12,145**	(83)	(2,862)
Redemptions of investment in other Farm Credit Institutions, net	**49**	83	82
(Increase) decrease in investment securities, net	**(21,820)**	20,294	20,172
Purchases of assets held for lease, net	**(13,937)**	(9,442)	(8,512)
Proceeds from sales of other property owned	**4,050**	7,501	2,950
Purchases of premises and equipment, net	**(4,346)**	(2,758)	(3,824)
(Increase) decrease in restricted cash	**(1,228)**	218	(1,332)
Net cash used in investing activities	**(565,154)**	(434,412)	(724,605)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**478,249**	251,946	656,441
Patronage distributions paid	**(28,969)**	(25,115)	(42,692)
Preferred stock issued, net	**--**	96,299	--
Preferred stock dividend paid	**(6,749)**	(3,132)	--
Capital stock and participation certificates (retired) issued, net	**(146)**	(177)	86
Net cash provided by financing activities	**442,385**	319,821	613,835
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	**$ 884**	$ 1,024	$ 1,269
Stock applied against loan principal	**465**	582	555
Stock applied against interest	**8**	8	4
Interest transferred to loans	**935**	938	8,138
Increase in equity from investment securities	**82**	--	--
Loans transferred to other property owned	**3,500**	2,821	8,571
Financed sales of other property owned	**192**	138	954
Deferred gain related to financed sales of other property owned	**--**	51	--
(Increase) decrease in payable to Farmer Mac not yet settled	**(1,228)**	218	(1,332)
Supplemental information			
Interest paid	**$ 99,537**	$ 95,651	$ 104,540
Taxes (refunded) paid, net	**(284)**	3,965	2,544

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgStar Financial Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Association

AgStar Financial Services, ACA (the Association) and its subsidiaries, AgStar Financial Services, FLCA and AgStar Financial Services, PCA (the subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible member stockholders for qualified agricultural purposes in the counties of Aitkin, Anoka, Benton, Blue Earth, Brown, Carlton, Carver, Cass, Chisago, Cook, Cottonwood, Crow Wing, Dakota, Dodge, Faribault, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Isanti, Itasca, Jackson, Kanabec, Lake, LeSueur, McLeod, Martin, Mille Lacs, Morrison, Mower, Murray, Nicollet, Nobles, Olmsted, Pine, Pipestone, Ramsey, Rice, Rock, St. Louis, Scott, Sibley, Sherburne, Stearns, Steele, southern Todd, Wabasha, Waseca, Washington, Watonwan, Winona, and Wright counties in the state of Minnesota and Ashland, Barron, Bayfield, Burnett, Chippewa, Douglas, Dunn, Eau Claire, Iron, Pepin, Pierce, Polk, Rusk, St. Croix, Sawyer, and Washburn counties in the state of Wisconsin.

We borrow from AgriBank, FCB (AgriBank) and provide financing and related services to our clients. Our ACA holds all the stock of the FLCA and PCA subsidiaries and provides lease financing options for agricultural production or operating purposes. The FLCA makes secured long-term agricultural real estate, rural home, and part-time farmer mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate term loans and holds certain types of investments. We also service certain loans.

We offer various risk management services, including credit life, term life, credit disability, title, crop hail, and multi-peril crop insurance for clients and those eligible to borrow. We also offer services, such as fee appraisals, retirement and succession planning, cash management, commodity price hedging, farm business consulting, producer education, auction clerking, title search, and fleet management services to our clients.

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, 2015, the System consisted of three Farm Credit Banks (FCB), one Agricultural Credit Bank (ACB), and 76 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, 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, 2015, 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.

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 AgStar Financial Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

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

We place loans in nonaccrual status when:

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

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan/lease 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 restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (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.

Loans Held for Sale: Loans held for sale include rural residential mortgages originated for sale. We elected the fair value option for all loans held for sale. Loans are valued on an individual basis and gains or losses are recorded in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. Direct loan origination costs and fees for loans held for sale are recognized in income at origination. Interest income on loans held for sale is calculated based upon the note rate of the loan and is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income.

Allowance for Loan/Lease Losses: The allowance for loan/lease 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/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.

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. All risk loans are considered to be impaired loans. Risk loans include:

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

We record a specific allowance to reduce the carrying amount of the risk loan 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/lease losses. Subsequent recoveries, if any, are added to the allowance for loan/lease 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/lease losses consist of provision activity, recorded in "Provision for (reversal of) loan/lease losses" in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

Investment Securities: We are authorized to purchase and hold certain types of investments. Those investments for which we have the positive intent and ability to hold to maturity have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through "Fee and miscellaneous income, net" in the Consolidated

Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security's carrying amount.

Other investment securities may not necessarily be held-to-maturity and, accordingly, have been classified as available-for-sale. These investments are reported at fair value, and unrealized holding gains and losses on investments that are not other-than-temporarily impaired are netted and reported as a separate component of shareholders' equity in Accumulated Other Comprehensive Income in the Consolidated Statements of Condition. Changes in the fair value of investment securities are reflected as direct charges or credits to other comprehensive income, unless the security is deemed to be other-than-temporarily impaired. When other-than-temporary impairment exists and we do not intend to sell the impaired debt security, nor are we more likely than not to be required to sell the security before recovery, we separate the loss into credit-related and non-credit-related components. If a security is deemed to be other-than-temporarily impaired, the security is written down to fair value, the credit-related component is recognized through earnings and the non-credit-related component is recognized in other comprehensive income.

Purchased premiums and discounts are amortized over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

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

Leases: We have finance, conditional sales, and operating leases. Under finance/conditional sales leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance income to earnings using the interest method. The carrying amount of finance/conditional sales leases is included in "Loans held to maturity" in the Consolidated Statements of Condition and represents lease rent receivables net of the unearned income plus the residual receivable. We recognize operating lease revenue evenly over the term of the lease in "Net operating lease income" in the Consolidated Statements of Comprehensive Income. We charge depreciation and other expenses against revenue as incurred. The carrying amount of operating leases is included in "Assets held for lease, net" in the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in "Other operating expenses" in the Consolidated Statements of Comprehensive 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/lease 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 "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive 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 Comprehensive Income.

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

Certain employees also participate in the non-qualified defined benefit Pension Restoration Plan of the AgriBank District. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

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 plans allow eligible employees to save for their retirement either pre-tax, Roth after-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match for those employees that do not participate in the District's defined benefit retirement plan. Employer contributions are expensed when incurred.

Income Taxes: The ACA and PCA accrue federal and certain state income taxes. The ACA and PCA are exempt from Minnesota state income tax. 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 have a nonqualified patronage program that requires the allocation of earnings for each fiscal year provided all statutory and regulatory capital requirements have been met. Nonqualified patronage distributions do not qualify as a deduction from our taxable income, and the client receiving it does not record it as taxable income, until it is redeemed at some future date. The redemption of nonqualified patronage distributions is at the discretion of the Board of Directors.

Commitments to Extend Credit: Unfunded commitments for residential mortgages intended to be held for sale are considered derivatives and recorded in the Consolidated Statements of Condition at fair value with changes in fair value recorded in "Fee and miscellaneous income, net" in the Consolidated Statements of Comprehensive Income. All other unfunded loan commitments are not considered derivatives. Reserves for credit exposure on all other unfunded credit commitments are recorded in "Other liabilities" in the Consolidated Statements of Condition.

Derivatives: We are party to derivative financial instruments called "to be announced" securities (TBAs) 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. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined.

In accordance with Financial Accounting Standards Board (FASB) guidance on "Accounting for Derivative Instruments and Hedging Activities", derivatives are recorded on the Consolidated Statements of Condition as Other assets or Other liabilities on a net basis, measured at fair value. Changes in the fair values of derivatives are accounted for as gains or losses through earnings. Losses resulting from counterparty risk are accounted for as a component of other comprehensive income, in the equity section of the Consolidated Statements of Condition.

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. 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.

Statements of Cash Flows: 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 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, 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, and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect 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. In addition, no accounting pronouncements were adopted during 2014.

NOTE 3: LOANS HELD TO MATURITY AND ALLOWANCE FOR LOAN/LEASE LOSSES

Loans consisted of the following (dollars in thousands):

	2014		2013		2012	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 3,473,882**	**50.4%**	$ 3,253,439	51.1%	$ 2,889,701	48.9%
Production and intermediate term	**1,927,376**	**27.9%**	1,770,700	27.8%	1,761,770	29.8%
Agribusiness	**718,870**	**10.4%**	638,637	10.1%	610,220	10.3%
Other	**779,518**	**11.3%**	700,736	11.0%	651,645	11.0%
Total	**$ 6,899,646**	**100.0%**	$ 6,363,512	100.0%	$ 5,913,336	100.0%

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

Portfolio Concentrations

We have individual borrower, agricultural, and territorial concentrations.

As of December 31, 2014, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.0% of total loans and commitments.

Agricultural concentrations were as follows:

As of December 31	**2014**	2013	2012
Cash grains	**37.3%**	36.6%	34.4%
Agribusiness	**14.3%**	12.7%	12.7%
Swine	**10.2%**	11.5%	11.3%
Dairy	**8.9%**	8.9%	9.4%
Home mortgages	**8.6%**	9.5%	8.7%
Cattle	**4.4%**	3.7%	3.8%
Landlords	**3.4%**	3.7%	3.9%
Forest products	**3.0%**	3.4%	2.3%
Renewable energy	**2.8%**	3.5%	3.6%
Other	**7.1%**	6.5%	9.9%
Total	**100.0%**	100.0%	100.0%

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. In addition, a certain portion of our loans are guaranteed by Farmer Mac or US government agencies. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan/lease 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. The following table presents information regarding participations purchased and sold (in thousands):

	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	**$ --**	**$ (176,904)**	**$ 247,144**	**$ (86,245)**	**$ 913,204**	**$ (14,096)**	**$ 1,160,348**	**$ (277,245)**
Production and intermediate term	**--**	**(65,838)**	**28,600**	**(984,349)**	**1,235,387**	**(776)**	**1,263,987**	**(1,050,963)**
Agribusiness	**--**	**(31,821)**	**371,235**	**(20,688)**	**163,737**	**(29,691)**	**534,972**	**(82,200)**
Other	**--**	**(18,597)**	**386,054**	**(19,765)**	**18,404**	**(15,175)**	**404,458**	**(53,537)**
Total	**$ --**	**$ (293,160)**	**$ 1,033,033**	**$ (1,111,047)**	**$ 2,330,732**	**$ (59,738)**	**$ 3,363,765**	**$ (1,463,945)**

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2013	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (195,942)	$ 189,199	$ (111,410)	$ 839,959	$ (16,186)	$ 1,029,158	$ (323,538)
Production and intermediate term	--	(98,586)	37,048	(963,378)	1,141,776	(3,085)	1,178,824	(1,065,049)
Agribusiness	--	(60,348)	301,266	(71,250)	122,741	(106,403)	424,007	(238,001)
Other	--	(19,365)	342,133	(9,375)	7,301	(7,015)	349,434	(35,755)
Total	$ --	$ (374,241)	$ 869,646	$ (1,155,413)	$ 2,111,777	$ (132,689)	$ 2,981,423	$ (1,662,343)

	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2012	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (207,281)	$ 162,721	$ (197,756)	$ 732,676	$ (44,392)	$ 895,397	$ (449,429)
Production and intermediate term	--	(113,165)	46,663	(833,291)	768,884	(84,987)	815,547	(1,031,443)
Agribusiness	--	(64,209)	201,785	(203,510)	176,759	(296,894)	378,544	(564,613)
Other	--	(17,985)	317,571	(2,794)	3,209	(4,962)	320,780	(25,741)
Total	$ --	$ (402,640)	$ 728,740	$ (1,237,351)	$ 1,681,528	$ (431,235)	$ 2,410,268	$ (2,071,226)

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, and
- Loss: loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2014, 2013, or 2012.

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

	Acceptable		OAEM		Substandard/ Doubtful		Total
As of December 31, 2013	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$ 3,117,201	95.0%	$ 48,033	1.5%	$ 114,465	3.5%	$ 3,279,699
Production and intermediate term	1,704,111	95.4%	40,012	2.3%	41,638	2.3%	1,785,761
Agribusiness	585,988	91.5%	37,933	5.9%	16,813	2.6%	640,734
Other	680,384	96.9%	6,501	0.9%	15,311	2.2%	702,196
Total	$ 6,087,684	95.0%	$ 132,479	2.1%	$ 188,227	2.9%	$ 6,408,390

	Acceptable		OAEM		Substandard/ Doubtful		Total
As of December 31, 2012	Amount	%	Amount	%	Amount	%	Amount
Real estate mortgage	$ 2,711,617	93.1%	$ 38,737	1.3%	$ 161,724	5.6%	$ 2,912,078
Production and intermediate term	1,694,965	95.5%	17,618	1.0%	63,034	3.5%	1,775,617
Agribusiness	543,715	88.8%	56,453	9.2%	12,498	2.0%	612,666
Other	632,587	96.9%	1,480	0.2%	19,032	2.9%	653,099
Total	$ 5,582,884	93.8%	$ 114,288	1.9%	$ 256,288	4.3%	$ 5,953,460

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

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	**$ 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**

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	$ 14,371	$ 16,620	$ 30,991	$ 3,248,708	$ 3,279,699	$ --
Production and intermediate term	4,770	2,478	7,248	1,778,513	1,785,761	--
Agribusiness	--	--	--	640,734	640,734	--
Other	2,657	12,125	14,782	687,414	702,196	--
Total	$ 21,798	$ 31,223	$ 53,021	$ 6,355,369	$ 6,408,390	$ --

As of December 31, 2012	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total Loans	90 Days Past Due and Accruing
Real estate mortgage	$ 16,719	$ 33,589	$ 50,308	$ 2,861,770	$ 2,912,078	$ 99
Production and intermediate term	2,561	5,051	7,612	1,768,005	1,775,617	27
Agribusiness	14,158	892	15,050	597,616	612,666	--
Other	3,523	10,854	14,377	638,722	653,099	--
Total	$ 36,961	$ 50,386	$ 87,347	$ 5,866,113	$ 5,953,460	$ 126

Risk Loans

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

As of December 31	**2014**	2013	2012
Nonaccrual loans:			
Current	**$ 37,174**	$ 102,081	$ 97,123
Past due	**14,165**	37,316	54,468
Total nonaccrual loans	**51,339**	139,397	151,591
Accruing restructured loans	**22,892**	2,101	102
Accruing loans 90 days or more past due	**304**	--	126
Total risk loans	**$ 74,535**	$ 141,498	$ 151,819
Volume with specific reserves	**$ 8,779**	$ 26,540	$ 20,279
Volume without specific reserves	**65,756**	114,958	131,540
Total risk loans	**$ 74,535**	$ 141,498	$ 151,819
Total specific reserves	**$ 3,098**	$ 5,841	$ 5,524

For the year ended December 31	**2014**	2013	2012
Income on accrual risk loans	**$ 690**	$ 327	$ 55
Income on nonaccrual loans	**5,735**	5,344	4,509
Total income on risk loans	**$ 6,425**	$ 5,671	$ 4,564
Average risk loans	**$ 104,172**	$ 165,888	$ 178,683

Risk assets have decreased significantly from December 31, 2013. The decrease in nonaccrual loans was due to settling volume mainly through upgrading, payoffs, or paydowns on certain accounts in the dairy segment, but also in the swine, beef, and bond segments. Nonaccrual loans are at an acceptable level at December 31, 2014 and 72.4% of our nonaccrual loans were current. The increase in accruing restructured loans was primarily the result of upgrading nonaccrual dairy loans into accrual status.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed volume of loans subject to the purchase agreement was $469.7 million, $426.8 million, and $244.1 million at December 31, 2014, 2013, and 2012, respectively. Fees paid to Farmer Mac for these commitments totaled $2.0 million, $1.6 million, and $1.2 million in 2014, 2013, and 2012, respectively. These amounts are included in “Other operating expenses” in the Consolidated Statements of Comprehensive Income. Sales of loans to Farmer Mac under this agreement were $432 thousand in 2012. There were no sales of loans to Farmer Mac under this agreement in 2014 or 2013.

On March 8, 2012, we terminated the Credit Default Swap Agreement entered into on October 9, 2009 with AgFunding 2009-A LLC. The loan pool balance was then $40.3 million. Early redemption was allowed by the Agreement once the aggregate outstanding principal balance of the pool was less than 20.0% of the original $202 million note balance. The balance of the pool was $50.4 million as of December 31, 2011. There were five tranches in the synthetic securitization. The Junior Risk tranche, held by us, had the first risk of loss and totaled $1.7 million on March 8, 2012. The next risk of loss fell into Tranches A, B, and C. These totaled $1.4 million on March 8, 2012 and were owned by a third party. The only loss in this securitization occurred in 2011 for $58 thousand against the Junior Risk tranche.

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

As of December 31	**2014**	2013	2012
Real estate mortgage	**$ 25,654**	$ 92,501	$ 106,889
Production and intermediate term	**13,642**	32,304	28,889
Agribusiness	**19**	13	1,579
Other	**12,024**	14,579	14,234
Total	**$ 51,339**	$ 139,397	$ 151,591

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

As of December 31	**2014**	2013	2012
Real estate mortgage	**$ 282**	$ --	$ 99
Production and intermediate term	**7**	--	27
Other	**15**	--	--
Total	**$ 304**	$ --	$ 126

All risk loans are considered to be impaired loans.

The following table provides additional impaired loan information (in thousands):

	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	**$ 4,845**	**$ 5,583**	**$ 1,482**	**$ 5,165**	**$ --**
Production and intermediate term	**3,190**	**3,314**	**1,331**	**4,028**	**--**
Other	**744**	**803**	**285**	**555**	**--**
Total	**$ 8,779**	**$ 9,700**	**$ 3,098**	**$ 9,748**	**$ --**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	**$ 39,586**	**$ 66,137**	**$ --**	**$ 54,923**	**$ 5,035**
Production and intermediate term	**14,857**	**37,282**	**--**	**21,209**	**1,330**
Agribusiness	**19**	**64**	**--**	**10**	**7**
Other	**11,294**	**13,573**	**--**	**18,282**	**53**
Total	**$ 65,756**	**$ 117,056**	**$ --**	**$ 94,424**	**$ 6,425**
Total impaired loans:					
Real estate mortgage	**$ 44,431**	**$ 71,720**	**$ 1,482**	**$ 60,088**	**$ 5,035**
Production and intermediate term	**18,047**	**40,596**	**1,331**	**25,237**	**1,330**
Agribusiness	**19**	**64**	**--**	**10**	**7**
Other	**12,038**	**14,376**	**285**	**18,837**	**53**
Total	**$ 74,535**	**$ 126,756**	**$ 3,098**	**$ 104,172**	**$ 6,425**

	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	$ 14,316	$ 15,814	$ 3,176	$ 18,886	$ --
Production and intermediate term	1,865	2,529	868	1,890	--
Other	10,359	10,587	1,797	10,575	--
Total	$ 26,540	$ 28,930	$ 5,841	$ 31,351	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 80,133	$ 113,136	$ --	$ 91,026	$ 4,235
Production and intermediate term	30,550	53,380	--	30,697	1,022
Agribusiness	13	60	--	1,328	192
Other	4,262	5,121	--	11,486	222
Total	$ 114,958	$ 171,697	$ --	$ 134,537	$ 5,671
Total impaired loans:					
Real estate mortgage	$ 94,449	$ 128,950	$ 3,176	$ 109,912	$ 4,235
Production and intermediate term	32,415	55,909	868	32,587	1,022
Agribusiness	13	60	--	1,328	192
Other	14,621	15,708	1,797	22,061	222
Total	$ 141,498	$ 200,627	$ 5,841	$ 165,888	$ 5,671

	As of December 31, 2012			For the year ended December 31, 2012	
	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	$ 15,004	$ 25,936	$ 3,909	$ 30,555	$ --
Production and intermediate term	1,745	2,047	910	7,911	--
Agribusiness	892	853	87	696	--
Other	2,638	2,992	618	3,049	--
Total	$ 20,279	$ 31,828	$ 5,524	$ 42,211	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 92,011	$ 124,828	$ --	$ 94,533	$ 3,338
Production and intermediate term	27,247	51,049	--	28,918	989
Agribusiness	686	1,346	--	1,731	129
Other	11,596	12,263	--	11,290	108
Total	$ 131,540	$ 189,486	$ --	$ 136,472	$ 4,564
Total impaired loans:					
Real estate mortgage	$ 107,015	$ 150,764	$ 3,909	$ 125,088	$ 3,338
Production and intermediate term	28,992	53,096	910	36,829	989
Agribusiness	1,578	2,199	87	2,427	129
Other	14,234	15,255	618	14,339	108
Total	$ 151,819	$ 221,314	$ 5,524	$ 178,683	$ 4,564

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, 2014.

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/lease losses.

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

	2014		2013		2012	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 736**	**$ 594**	$ 8,658	$ 8,651	$ 1,416	$ 1,325
Production and intermediate term	**499**	**500**	11,690	11,698	1,205	1,224
Communication	**--**	**--**	9,005	9,005	--	--
Rural residential real estate	**190**	**190**	135	135	--	--
Total	**$ 1,425**	**$ 1,284**	$ 29,488	$ 29,489	$ 2,621	$ 2,549

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 typically include deferral of payments or forgiveness of principal.

The following table presents TDRs that defaulted during the year ended December 31 in which the modification date was within 12 months of the respective reporting period (in thousands):

	2014	2013	2012
Real estate mortgage	**$ --**	$ 25	$ 464
Production and intermediate term	**--**	--	303
Total	**$ --**	$ 25	$ 767

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

As of December 31	**2014** TDRs in Accrual Status	**2014** TDRs in Nonaccrual Status	**2014** Total TDRs Outstanding	2013 TDRs in Accrual Status	2013 TDRs in Nonaccrual Status	2013 Total TDRs Outstanding	2012 TDRs in Accrual Status	2012 TDRs in Nonaccrual Status	2012 Total TDRs Outstanding
Real estate mortgage	**$ 18,494**	**$ 6,835**	**$ 25,329**	$ 1,991	$ 29,194	$ 31,185	$ 27	$ 29,536	$ 29,563
Production and intermediate term	**4,398**	**5,709**	**10,107**	110	16,552	16,662	75	7,319	7,394
Communication	**--**	**8,512**	**8,512**	--	8,988	8,988	--	--	--
Rural residential real estate	**--**	**276**	**276**	--	127	127	--	--	--
Total	**$ 22,892**	**$ 21,332**	**$ 44,224**	$ 2,101	$ 54,861	$ 56,962	$ 102	$ 36,855	$ 36,957

TDR volume decreased mainly as a result of paydowns in our beef, dairy, and telecom segments. The increase in accrual TDR volume was the result of upgrading dairy and swine accounts out of nonaccrual status.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $847 thousand at December 31, 2014.

Allowance for Loan/Lease Losses

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

For the year ended December 31	**2014**	2013	2012
Balance at beginning of year	**$ 24,725**	$ 26,814	$ 26,833
Provision for (reversal of) loan/lease losses	**1,084**	(3,078)	7,182
Loan recoveries	**2,298**	6,026	3,351
Loan charge-offs	**(4,452)**	(5,037)	(10,533)
Leasing and other, net	**--**	--	(19)
Balance at end of year	**$ 23,655**	$ 24,725	$ 26,814

Allowance levels reflect the continued improvements made in the portfolio. In the years presented, adverse accounts have paid down or off, been upgraded, or have taken charge-offs.

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2013	**$ 10,418**	**$ 7,337**	**$ 2,917**	**$ 4,053**	**$ 24,725**
Provision for (reversal of) loan/lease losses	**1,040**	**1,583**	**(1,188)**	**(351)**	**1,084**
Loan recoveries	**958**	**1,037**	**--**	**303**	**2,298**
Loan charge-offs	**(1,754)**	**(1,358)**	**--**	**(1,340)**	**(4,452)**
Balance as of December 31, 2014	**$ 10,662**	**$ 8,599**	**$ 1,729**	**$ 2,665**	**$ 23,655**
Ending balance: individually evaluated for impairment	**$ 1,482**	**$ 1,331**	**$ --**	**$ 285**	**$ 3,098**
Ending balance: collectively evaluated for impairment	**$ 9,180**	**$ 7,268**	**$ 1,729**	**$ 2,380**	**$ 20,557**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2014	**$ 3,503,605**	**$ 1,943,760**	**$ 721,309**	**$ 780,891**	**$ 6,949,565**
Ending balance: individually evaluated for impairment	**$ 44,431**	**$ 18,047**	**$ 19**	**$ 12,038**	**$ 74,535**
Ending balance: collectively evaluated for impairment	**$ 3,459,174**	**$ 1,925,713**	**$ 721,290**	**$ 768,853**	**$ 6,875,030**

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2012	$ 12,844	$ 8,060	$ 2,847	$ 3,063	$ 26,814
Provision for (reversal of) loan/lease losses	(5,171)	(92)	400	1,785	(3,078)
Loan recoveries	4,421	881	339	385	6,026
Loan charge-offs	(1,676)	(1,512)	(669)	(1,180)	(5,037)
Balance as of December 31, 2013	$ 10,418	$ 7,337	$ 2,917	$ 4,053	$ 24,725
Ending balance: individually evaluated for impairment	$ 3,176	$ 868	$ --	$ 1,797	$ 5,841
Ending balance: collectively evaluated for impairment	$ 7,242	$ 6,469	$ 2,917	$ 2,256	$ 18,884
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2013	$ 3,279,699	$ 1,785,761	$ 640,734	$ 702,196	$ 6,408,390
Ending balance: individually evaluated for impairment	$ 94,449	$ 32,415	$ 13	$ 14,621	$ 141,498
Ending balance: collectively evaluated for impairment	$ 3,185,250	$ 1,753,346	$ 640,721	$ 687,575	$ 6,266,892

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2011	$ 12,447	$ 9,504	$ 1,876	$ 3,006	$ 26,833
Provision for (reversal of) loan/lease losses	5,544	(96)	1,204	530	7,182
Loan recoveries	1,332	1,297	308	414	3,351
Loan charge-offs	(6,479)	(2,645)	(541)	(868)	(10,533)
Other	--	--	--	(19)	(19)
Balance as of December 31, 2012	$ 12,844	$ 8,060	$ 2,847	$ 3,063	$ 26,814
Ending balance: individually evaluated for impairment	$ 3,909	$ 910	$ 87	$ 618	$ 5,524
Ending balance: collectively evaluated for impairment	$ 8,935	$ 7,150	$ 2,760	$ 2,445	$ 21,290
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2012	$ 2,912,078	$ 1,775,617	$ 612,666	$ 653,099	$ 5,953,460
Ending balance: individually evaluated for impairment	$ 107,015	$ 28,992	$ 1,578	$ 14,234	$ 151,819
Ending balance: collectively evaluated for impairment	$ 2,805,063	$ 1,746,625	$ 611,088	$ 638,865	$ 5,801,641

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: LOANS HELD FOR SALE

Loans held for sale, at fair value, consisted of the following:

For the year ended December 31	2014	2013
Balance at beginning of year	**$ 4,470**	$ --
Originations/reclassifications	**27,529**	4,455
Proceeds on sales	**(24,171)**	--
Fair value adjustments	**71**	15
Balance at end of year	**$ 7,899**	$ 4,470

Mortgage loans held for sale are on our Consolidated Statements of Condition. These represent mortgage loans whereby the interest rate is set prior to funding. We are subject to the effects of changes in mortgage interest rates from the date of the interest rate lock commitment through the sale of the loan to a third party investor. As a result, we are exposed to interest rate risk and related price risk during the period from the date of the interest rate lock commitment through the interest rate lock commitment cancellation or expiration date or through the date of sale to a third party investor. There were no loans held for sale in 2012.

NOTE 5: INVESTMENT SECURITIES AND OTHER INVESTMENTS

We have held-to-maturity investment securities of $460.9 million, $462.4 million, and $484.1 million at December 31, 2014, 2013, and 2012, respectively. These investment securities consisted of:

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

These investment securities have been classified as held-to-maturity. MBS are generally longer-term investments and ABS are generally shorter-term investments.

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

As of December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
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%**

As of December 31, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 419,605	$ 2,475	$ (11,894)	$ 410,186	4.1%
ABS	42,819	86	(1,317)	41,588	2.2%
Total	$ 462,424	$ 2,561	$ (13,211)	$ 451,774	3.9%

As of December 31, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
MBS	$ 436,985	$ 7,208	$ (4,363)	$ 439,830	4.3%
ABS	47,107	270	(964)	46,413	2.3%
Total	$ 484,092	$ 7,478	$ (5,327)	$ 486,243	4.1%

Investment income is recorded in “Interest income” in the Consolidated Statements of Comprehensive Income and totaled $15.9 million, $16.9 million, and $19.1 million in 2014, 2013, and 2012, respectively.

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

As of December 31, 2014	Amortized Cost
Less than one year	**$ 733**
One to five years	**32,111**
Five to ten years	**71,134**
More than ten years	**356,961**
Total	**$ 460,939**

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 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**

	Less than 12 months		Greater than 12 months	
As of December 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$ 185,749	$ 7,114	$ 65,088	$ 4,780
ABS	12,287	412	21,735	905
Total	$ 198,036	$ 7,526	$ 86,823	$ 5,685

Investment securities available-for-sale, consisting of mortgage backed securities, totaled $21.0 million at December 31, 2014. For these investments, the amortized cost was $20.9 million, the unrealized gain was $82 thousand, and the contractual maturities were all more than ten years. There were no investment securities available-for-sale at December 31, 2013 or 2012.

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

We, together with certain other Farm Credit institutions, are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC will facilitate private equity investments in agriculture-related businesses that will create growth and job opportunities in rural America. Our total commitment is $20.0 million which may be drawn anytime during the first five years of the fund. As of December 31, 2014 our investment is $757 thousand.

NOTE 6: INVESTMENT IN AGRIBANK

Effective March 31, 2014, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Prior to March 31, 2014, the required investment was equal to 2.5%. As of December 31, 2014, 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 $142.1 million, $150.0 million, and $141.1 million at December 31, 2014, 2013, and 2012, respectively.

NOTE 7: ASSETS HELD FOR LEASE, NET

We hold property for agricultural leasing, primarily farm equipment and facilities. The following table provides a summary of our net operating lease income and property held for lease by major category (in thousands):

	2014	2013	2012
For the year ended December 31:			
Net operating lease income	**$ 1,646**	$ 1,634	$ 1,839
As of December 31:			
Farm/vehicle equipment	**$ 41,402**	$ 37,424	$ 35,623
Facilities	**20,662**	17,095	17,154
Subtotal	**62,064**	54,519	52,777
Less: accumulated depreciation	**20,498**	18,067	17,481
Assets held for lease, net	**$ 41,566**	$ 36,452	$ 35,296

The following is a schedule of expected future minimum rentals (in thousands):

	Operating Leases
2015	$ 9,810
2016	7,315
2017	5,201
2018	3,379
2019	1,527
Thereafter	1,662
Total minimum future rentals	$ 28,894

NOTE 8: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral. The following table summarizes note payable information (dollars in thousands):

As of December 31	**2014**	2013	2012
Line of credit	**$ 6,900,000**	$ 6,500,000	$ 6,000,000
Outstanding principal under the line of credit	**6,340,682**	5,862,433	5,610,487
Interest rate	**1.6%**	1.6%	1.6%

Our note payable matures March 31, 2015, 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, 2014, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 9: SUBORDINATED DEBT

We have $100 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 2025. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. Our Board of Directors has authorized up to a maximum of $200 million for subordinated debt issuance. At our option, we may redeem all or some of the Notes, at any time on or after a date 10 years from the closing date (March 2010). This debt is subordinate to all other creditor debt, including general creditors, and senior to all classes of stock. Proceeds have increased our regulatory permanent capital and total surplus ratios and position us for the future. Our subordinated debt is not considered System debt and is not an obligation of, nor guaranteed by any System entity. Further, payments on the subordinated Notes are not insured by the FCSIC.

NOTE 10: EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each client 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 client's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all clients to whom a lease is issued and of all non-stockholder clients who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The client 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 clients.

Regulatory Capitalization Requirements

Under current capital adequacy regulations, we are required to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. The calculation of these ratios in accordance with the FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2014, our ratio was 15.7%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2014, our ratio was 15.4%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2014, our ratio was 12.9%.

Regulatory capital includes all of our investment in AgriBank that is in excess of the required investment under an allotment agreement with AgriBank. However, we had no excess stock at December 31, 2014, 2013, or 2012.

Description of Equities

As of December 31, 2014, we had 2,979,694 outstanding shares of Class B common stock and 255,752 outstanding shares of Class E participation certificates. All shares and participation certificates were at-risk and $5.00 par value.

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. We also are authorized to issue Class H preferred stock, an at-risk nonvoting stock with a $1.00 par value per share. Currently, no stock of these classes has been issued.

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock, representing 100,000 shares at $1,000 per share par value. This series may be held or transferred in blocks having an aggregate par value of not less than $250,000 and an investor must hold at least 250 shares. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA Regulations, for the continued development of our business, and for general corporate purposes.

Dividends on the Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the 15th day of February, May, August, and November, beginning on August 15, 2013. Dividends accrue at a fixed annual rate of 6.75% from the date of issuance through August 14, 2023, and beginning on August 15, 2023 will accrue at an annual rate equal to the 3-month USD LIBOR rate, reset quarterly, plus 4.58%. The Series A-1 preferred stock is not mandatorily redeemable at any time. However, the Series A-1 preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on August 15, 2023. In addition, the Series A-1 preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. Series A-1 preferred stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

The Series A-1 preferred stock is junior to any subordinated debt, existing and future debt obligations, and to any series of preferred stock we may issue in the future with priority rights. Series A-1 preferred stock is senior to outstanding Class B, C, or D common stock, Class E participation certificates, Class H preferred stock, and patronage equities. The Series A-1 preferred stock has a preference as to dividends and on liquidation or dissolution over all other classes of equities.

Only holders of Class B stock have voting rights. Our bylaws allow us to pay dividends of up to eight percent on any classes of stock. However, no stock dividends have been declared to date other than the Series A-1 preferred stock dividends.

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, 2014, 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 remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of Series A-1 preferred stock,
- second, to holders of Class H preferred stock,
- third, to holders of Class B, C, and D common stock and Class E participation certificates pro rata to all such stock,
- fourth, to member stockholders who have received capital through patronage transactions pro rata to all such capital, and
- lastly, any remaining assets shall be distributed to current and former member stockholders based on relative patronage transactions.

In the event of impairment, losses will be absorbed by unallocated capital reserves, patronage equities, or the concurrent impairment of all classes of stock, in a manner deemed to be fair and equitable by the Board of Directors, provided that no shares of Class H preferred stock may be impaired until all other classes of stock and participation certificates are fully impaired.

All classes of stock and participation certificates, other than Series A-1 preferred stock, are transferable to other clients who are eligible to hold such class of stock or participation certificates. Transfers of Class B common stock are subject to the approval of the Board of Directors. Transfers of Class C or D common stock or Class E participation certificates are only allowed if we meet the regulatory minimum capital requirements. Series A-1 preferred stock may only be transferred to qualified institutional buyers and accredited institutional investors, as those terms are defined by the Securities Act of 1933, as amended, and only in accordance with the terms and limitations of the Series A-1 preferred stock offering documents.

Patronage Distributions

We made net nonqualified patronage allocations of $60.0 million, $61.6 million, and $55.0 million in 2014, 2013, and 2012, respectively. Our nonqualified patronage allocation is based on a Board of Directors resolution requiring an allocation of annual net patronage-eligible earnings for each fiscal year. Patronage equities have no voting rights, are redeemed at the sole discretion of the Board of Directors and are transferable only if specifically authorized by the Board of Directors.

On January 18, 2012, the Board of Directors authorized the retirement of the remainder of the $17.8 million of 2002 nonqualified patronage allocations. This retirement was substantially completed by February 1, 2012. On September 19, 2012, the Board of Directors authorized the retirement of the remainder of the $22.8 million of 2003 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2012. On September 18, 2013, the Board of Directors authorized the retirement of the remainder of the $24.7 million of 2004 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2013. On September 18, 2014, the Board of Directors authorized the retirement of the remainder of the $28.9 million of 2005 nonqualified patronage allocations. This retirement was substantially completed by December 1, 2014. The timing of these payouts occurred within the Board of Directors' targeted 7-10 year retirement timeframe. On December 18, 2013, the Board of Directors authorized the payment of $88 thousand of dividends on approved transactions, to be paid by March 15, 2014. On December 18, 2014, the Board of Directors authorized the payment of $609 thousand of dividends on approved transactions, to be paid by March 15, 2015. The timing and amounts of all future patronage redemptions and dividend payments remains at the discretion of the Board of Directors based on a combination of factors including the risk in our portfolio, earnings, and our current capital position.

We received a special stock patronage refund of $4.6 million from AgriBank on December 31, 2002. This stock received would be subject to tax only upon conversion to cash. Effective in 2002, our Board of Directors passed a resolution stating that, should we realize additional taxable income from the conversion of this stock, we will declare a patronage distribution to our member stockholders at such time in an amount equivalent to the amount of such additional taxable income realized.

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 2015.

NOTE 11: INCOME TAXES

Provision for (Benefit from) Income Taxes

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

For the year ended December 31	**2014**	2013	2012
Current:			
Federal	**$ 3,552**	$ 5,889	$ (1,788)
State	**239**	281	181
Total current	**3,791**	6,170	(1,607)
Deferred:			
Federal	**(360)**	(1,641)	(1,573)
State	**29**	(49)	(191)
Total deferred	**(331)**	(1,690)	(1,764)
Provision for (benefit from) income taxes	**$ 3,460**	$ 4,480	$ (3,371)
Effective tax rate	**2.9%**	3.7%	(3.2%)

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

For the year ended December 31	**2014**	2013	2012
Federal tax at statutory rates	**$ 42,297**	$ 42,214	$ 35,460
State tax, net	**111**	122	69
Patronage distributions	**(7,508)**	(7,760)	(6,928)
Effect of non-taxable entity	**(30,690)**	(29,445)	(25,183)
Other	**(750)**	(651)	(6,789)
Provision for (benefit from) income taxes	**$ 3,460**	$ 4,480	$ (3,371)

Tax Related Matters

Tax reductions were recorded reflecting the 2005, 2004, and 2003 nonqualified patronage retired in the fourth quarters of 2014, 2013, and 2012, respectively. These reductions are reflected in the above table in the “Patronage distributions” adjustments. Also, in 2012, a tax reduction (included in “Other” in the preceding table) in the amount of $6.8 million was recorded, reflecting the deduction on the 2011 tax return from the 2002 nonqualified patronage retired in the first quarter of 2012.

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 Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

Deferred tax assets and liabilities were composed of the following (in thousands):

As of December 31		2014		2013		2012
Allowance for loan/lease losses	**$**	**4,306**	$	4,351	$	4,831
Postretirement benefit accrual		**485**		462		427
Deferred fee income, net		**695**		654		625
Accrued incentive		**1,378**		1,186		1,151
Leasing related, net		**(12,511)**		(12,259)		(14,224)
Accrued patronage income not received		**(702)**		(934)		(832)
Accrued pension asset		**--**		--		(125)
Depreciation		**(212)**		(280)		(370)
Other assets		**409**		331		321
Other liabilities		**(578)**		(572)		(555)
Deferred tax liabilities, net	**$**	**(6,730)**	$	(7,061)	$	(8,751)
Gross deferred tax assets	**$**	**7,273**	$	6,984	$	7,355
Gross deferred tax liabilities	**$**	**(14,003)**	$	(14,045)	$	(16,106)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2014, 2013, or 2012.

We have not provided deferred income taxes on approximately $59.8 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Also, we have not provided deferred income taxes on $4.6 million of patronage allocations in the form of AgriBank stock distributed in 2002 to the ACA and PCA. The Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under our patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $690.3 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to stockholders 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, 2014. In addition, we believe we are no longer subject to income tax examinations for years prior to 2011.

NOTE 12: 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 2014 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 multi-employer defined benefit 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. New benefits-eligible employees hired between October 1, 2001 and December 31, 2006 are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. 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, referred to as a withdrawal liability. 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.

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $423.9 million at December 31, 2014. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the District-wide plan was $1.2 billion, $1.0 billion, and $1.1 billion at December 31, 2014, 2013, and 2012, respectively. The fair value of the plan assets was $811.1 million, $759.5 million, and $640.1 million at December 31, 2014, 2013, and 2012, respectively. The accumulated benefit obligation, which 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, exceeds pension plan assets. The accumulated benefit obligation for the District-wide plan was $1.1 billion, $864.2 million, and $908.2 million at December 31, 2014, 2013, and 2012, respectively. 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. Total plan expense for participating employers was $45.8 million, $63.3 million, and $52.7 million for 2014, 2013, and 2012, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income was $6.4 million, $8.8 million, and $6.7 million for 2014, 2013, and 2012, respectively. The plan expense for participating employers in 2015 is expected to increase to levels more consistent with 2013 primarily due to changes in discount rate and mortality assumptions. Participating employers contributed $52.0 million, $59.0 million, and $51.3 million to the plan in 2014, 2013, and 2012, respectively. Our allocated share of these pension contributions was $7.3 million, $8.3 million, and $6.6 million for 2014, 2013, and 2012, respectively. Benefits paid to participants in the District were $42.6 million in 2014, none of which were paid to our senior officers who were actively employed during the year. 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 2015 is $57.9 million. Our allocated share of these pension contributions is expected to be $8.0 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.

Nonqualified Retirement Plan: We also participate in the District-wide non-qualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above the Internal Revenue Code compensation or other limits.

As disclosed in the District financial statements, the Pension Restoration Plan reflects an unfunded liability totaling $27.7 million at December 31, 2014. This plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The projected benefit obligation of the Pension Restoration Plan was $27.7 million, $25.3 million, and $23.5 million at December 31, 2014, 2013, and 2012, respectively. The accumulated benefit obligation for the Pension Restoration Plan was $23.0 million, $19.8 million, and $17.5 million at December 31, 2014, 2013, and 2012, respectively. The amount of the pension benefits funding status is subject to many variables including 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 participants in the plan. Total Pension Restoration Plan expense for participating employers was $3.7 million, $3.6 million, and $2.4 million for 2014, 2013, and 2012, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income was $1.2 million, $1.3 million, and $423 thousand for 2014, 2013, and 2012, respectively. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions, equal to the benefits paid, were $158 thousand and $158 thousand for 2014 and 2013, respectively.

There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year. We had no cash contributions and paid no benefits during 2012.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefit costs included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income were $166 thousand, $238 thousand, and $221 thousand for 2014, 2013, and 2012, respectively. Our cash contributions, equal to the benefits paid, were $128 thousand, $127 thousand, and $122 thousand for 2014, 2013, and 2012, respectively.

Defined Contribution Plans

We participate in a District-wide defined contribution retirement savings 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, be 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 retirement savings plan if it were not for certain IRS limitations.

Employer contribution expenses for the retirement savings plans, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $3.4 million, $3.2 million, and $3.0 million in 2014, 2013, and 2012, respectively. These expenses were equal to our cash contributions for each year.

Additionally, we participate in a District-wide Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

NOTE 13: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in 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, 2014 involved more than a normal risk of collectability.

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

	2014	2013	2012
As of December 31:			
Total related party loans and leases	**$ 26,119**	$ 28,770	$ 29,842
For the year ended December 31:			
Advances to related parties	**$ 21,571**	$ 18,826	$ 24,815
Repayments by related parties	**19,325**	21,494	21,272

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

As discussed in Note 8, 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 information systems, financial, accounting and reporting, and retail product processing and support services. The total cost of services we purchased from AgriBank was $1.9 million, $1.8 million, and $1.8 million in 2014, 2013, and 2012, respectively.

We also purchase human resource information systems, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2014, 2013, and 2012, our investment in Foundations was $83 thousand. The total cost of services purchased from Foundations was $391 thousand, $393 thousand, and $334 thousand in 2014, 2013, and 2012, respectively.

We have an agreement with CoBank to provide certain cash management services to some of our clients. To support these cash management services, we have a cash management agreement with CoBank that includes an $8 million back-up cash management settlement facility.

NOTE 14: 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. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. At December 31, 2014, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $2.3 billion. Additionally, we had $39.0 million of issued standby letters of credit and $22.8 million of other commitments as of December 31, 2014. Refer to Note 17 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.

NOTE 15: DERIVATIVES

We use forward commitments to sell TBAs at specified prices to economically hedge the interest rate risk on loans held for sale and interest rate lock commitments. Changes in fair value subsequent to inception are based on changes in the fair value of the underlying loan and for commitments to originate loans and changes in the probability that the loan will fund within the terms of the commitment. Changes in the probability that the loan will fund within the terms of the commitment are affected primarily by changes in interest rates and the passage of time. As of December 31, 2014, we had $8.9 million of forward commitments to sell, hedging $7.9 million of mortgage loans held for sale and $3.4 million of unfunded mortgage loan commitments. As of December 31, 2013, we had $3.0 million of forward commitments to sell, hedging $4.5 million of mortgage loans held for sale and $588 thousand of unfunded mortgage loan commitments. The forward commitments to sell and the unfunded mortgage loan commitments on loans intended to be sold are considered derivatives and are valued at fair value. On the TBAs, we had gains of $21 thousand and $6 thousand and losses of $579 thousand and $8 thousand relating to net fair value adjustments and sales in 2014 and 2013, respectively. These amounts were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. We held no TBAs prior to 2013.

NOTE 16: 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.

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 $7.9 million and $4.5 million as of December 31, 2014 and 2013, respectively, which were valued using Level 3 unobservable inputs. Total fair value gains related to these loans of $85 thousand and $15 thousand in 2014 and 2013, respectively, were recognized in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income. We had no loans held for sale prior to 2013.

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 mortgage loans 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 $21.0 million at December 31, 2014, which were valued using Level 3 unobservable inputs. Gains related to these investments totaling $82 thousand in 2014 were recognized in “Other comprehensive income” in the Consolidated Statements of Comprehensive Income. We had no investment securities available-for-sale prior to 2014.

Derivatives: If an active market exists, the fair value of our derivatives is based on currently quoted market prices. We had TBAs with a notional value of $8.9 million and $3.0 million as of December 31, 2014 and 2013, 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 $558 thousand and $2 thousand in 2014 and 2013, respectively. These were included in “Fee and miscellaneous income, net” in the Consolidated Statements of Comprehensive Income.

We did not have any material assets or liabilities measured at fair value on a recurring basis at December 31, 2012.

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:

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value.

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

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

As of December 31, 2014	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	**$ --**	**$ 1,174**	**$ 4,792**	**$ 5,966**	**$ 1,272**
Other property owned	**--**	**--**	**4,322**	**4,322**	**567**

As of December 31, 2013	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	$ --	$ 1,876	$ 19,840	$ 21,716	$ 539
Other property owned	--	--	5,270	5,270	(2,004)

As of December 31, 2012	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	$ --	$ 1,774	$ 13,719	$ 15,493	$ (1,828)
Other property owned	--	--	12,065	12,065	(1,484)

NOTE 17: FAIR VALUE OF FINANCIAL INSTRUMENTS MEASURED AT CARRYING AMOUNTS

Financial instruments on our Consolidated Statements of Condition measured at carrying amounts have the following fair values (in thousands):

	2014		2013		2012	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans held to maturity	**$ 6,870,310**	**$ 6,923,936**	$ 6,318,088	$ 6,311,171	$ 5,871,767	$ 5,962,288
Investment securities held-to-maturity	**460,939**	**451,926**	462,424	451,774	484,092	486,243
Financial liabilities:						
Note payable to AgriBank, FCB	**$ 6,340,682**	**$ 6,367,951**	$ 5,862,433	$ 5,831,688	$ 5,610,487	$ 5,681,952
Subordinated debt	**100,000**	**110,793**	100,000	107,143	100,000	116,193
Unrecognized financial instruments:						
Commitments to extend credit and letters of credit		**$ (2,869)**		$ (2,572)		$ (2,156)

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

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

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

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

Net loans: Because no active market exists for our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made or repriced to borrowers with similar credit risk. In addition, loans are valued using the Farm Credit interest rate yield curve, prepayment rates, contractual loan information, credit classification, and collateral values. As the discount rates are based upon internal pricing mechanisms and other management estimates, management has no basis to determine whether the fair values presented would be indicative of the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio less marketable outside the System.

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

Investment securities held-to-maturity: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates adjusted for credit risk.

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

Subordinated debt: We estimate the fair value of the subordinated debt by discounting the expected future cash requirements using current interest rates.

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

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 6, the investment is a requirement of borrowing from AgriBank.

NOTE 18: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

2014	First	Second	Third	Fourth	Total
Net interest income	**$ 45,495**	**$ 46,498**	**$ 47,063**	**$ 48,424**	**$ 187,480**
Provision for (reversal of) loan/lease losses	**--**	**677**	**(77)**	**484**	**1,084**
Patronage income	**4,827**	**4,712**	**4,768**	**7,377**	**21,684**
Other expense, net	**21,072**	**21,283**	**23,123**	**21,753**	**87,231**
Provision for (benefit from) income taxes	**2,895**	**2,694**	**(4,009)**	**1,880**	**3,460**
Net income	**$ 26,355**	**$ 26,556**	**$ 32,794**	**$ 31,684**	**$ 117,389**

2013	First	Second	Third	Fourth	Total
Net interest income	$ 41,353	$ 43,046	$ 44,739	$ 46,134	$ 175,272
Provision for (reversal of) loan/lease losses	1,629	(809)	(95)	(3,803)	(3,078)
Patronage income	4,073	4,209	4,062	9,196	21,540
Other expense, net	14,962	20,030	20,339	23,949	79,280
Provision for (benefit from) income taxes	4,019	3,494	(6,024)	2,991	4,480
Net income	$ 24,816	$ 24,540	$ 34,581	$ 32,193	$ 116,130

2012	First	Second	Third	Fourth	Total
Net interest income	$ 38,221	$ 38,213	$ 40,126	$ 41,591	$ 158,151
Provision for (reversal of) loan/lease losses	1,724	3,759	1,777	(78)	7,182
Patronage income	3,211	4,375	3,260	7,492	18,338
Other expense, net	18,303	10,750	18,254	17,990	65,297
Provision for (benefit from) income taxes	(2,497)	3,557	2,122	(6,553)	(3,371)
Net income	$ 23,902	$ 24,522	$ 21,233	$ 37,724	$ 107,381

NOTE 19: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 11, 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 2014 consolidated financial statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgStar Financial Services, ACA
(Unaudited)

Description of Business

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

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

Description of Property

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Apple Valley, MN	Leased	Branch
Baldwin, WI	Owned	Branch
Bloomington, IL	Leased	Commercial Unit
Blue Earth, MN	Leased	Branch
Des Moines, IA	Leased	Branch
Duluth, MN	Leased	Contact Office
Fargo, ND	Leased	Commercial Unit
Glencoe, MN	Owned	Branch
Lake Elmo, MN	Leased	Commercial Unit
Mankato, MN	Owned / Leased	Branch/Headquarters
Meridian, ID	Leased	Contact Office
Northfield, MN	Leased	Branch
Rice Lake, WI	Owned	Branch
Rochester, MN	Leased	Branch
St. Cloud, MN	Owned	Branch
Sauk Centre, MN	Leased	Contact Office
Spokane, WA	Leased	Commercial Unit
Woodland, CA	Leased	Contact Office
Worthington, MN	Leased	Branch/Contact Office

Legal Proceedings

Information regarding legal proceedings is discussed in Note 14 of this Annual Report. We were not subject to any enforcement actions as of December 31, 2014.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 10 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 8, 9, 10, 11, 12, 14, 15, and 17 of this Annual Report.

Selected Financial Data

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

Management's Discussion and Analysis

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

Board of Directors

Information regarding directors who served as of December 31, 2014, including business experience in the last five years and any other business interest where a director serves on the Board of Directors or as a senior officer follows:

Kaye Compart, Chairperson of the Board, is a self-employed livestock and grain farmer. She is also the Secretary of South Central Saddle Club, Mankato, MN, involved in horse shows, and a board member of the South Central Chapter of the University of Minnesota Alumni Association, Mankato, MN, and the Nicollet Area Community Foundation, Nicollet, MN, a fund raising organization. Her current term on the board began in 2012 and expires in 2015.

Dale Holmgren, Vice Chairperson of the Board, is a self-employed grain and livestock farmer. He is also President of Svin Hus, Inc., Mankato, MN, a swine operation. His current term on the board began in 2013 and expires in 2016.

Wesley Beck is a self-employed grain and livestock farmer. He is also a director for the St. James Medical Center Foundation, St. James, MN, a volunteer fund raising committee. His current term on the board began in 2014 and expires in 2017.

Eunice Biel is a self-employed dairy and grain farmer. She serves on the Executive Board for Minnesota Farmers Union, a general farm policy organization. She is a board member of the Center for Rural Policy and Development, St. Peter, MN, a nonprofit organization focused on rural issues. She is board member of the Minnesota Dairy Research/Education and Consumer Outreach Authority, St. Paul, MN, an agency of the Minnesota Department of Agriculture focused on partnerships between higher education and the dairy industry. She is a board member of the Perpich Center for Arts Education, Golden Valley, MN, a Minnesota state agency intended to facilitate an integrated arts and academic curriculum for students. She is also the Bristol Township Clerk. Through 2014, she worked at the Mayo Clinic, Rochester, MN, a health care provider. Her current term on the board began in 2014 and expires in 2017.

David Bollman is a self-employed grain farmer. During the last five years, he was also a self-employed dairy farmer. His current term on the board began in 2013 and expires in 2016.

Theresa Ann Broome, Outside Director, is a human resources executive and consultant. From April, 2006 to August, 2010, she was a Sr. Vice President, Human Resources for American Achievement Corporation, Austin, TX, a consumer goods holding company. From August, 2010 to March, 2012, she was the Chief People Officer for Lower Colorado River Authority, Austin, TX, a power plant and park management company. She is currently a self-employed Human Resources Consultant. Prior to that, she had business and human resources careers at Coca Cola Enterprises and the U.S. Postal Service. Her current term on the board began in 2012 and expires in 2015.

Terry Ebeling is a self-employed grain farmer. His current term on the board began in 2013 and expires in 2016.

Spencer Enninga is a self-employed grain and livestock farmer and a seed sales representative. He is also President of Enninga Farms, Inc., Fulda, MN, a grain and livestock operation. His current term on the board began in 2014 and expires in 2017.

Larry Fischer is a self-employed grain and livestock farmer. He is President and Treasurer of Fischer Dairy, Inc., Sleepy Eye, MN, a dairy operation and President of Fischer Ridge, LLC, Sleepy Eye, MN, an entity created to own and manage recreational land. His current term on the board began in 2012 and expires in 2015.

Steven Johnson is a self-employed grain farmer. He also serves on the board of Windom Hospital Foundation, a fund raising organization. His current term on the board began in 2013 and expires in 2016.

Kevin Koppendrayer is a self-employed grain farmer and a seed sales representative. He is also the owner of Koppendrayer Trucking, Princeton, MN. His current term on the board began in 2012 and expires in 2015.

David Kretzschmar is a self-employed dairy and grain farmer. He is also President of Kretzschmar Holsteins, Inc., Mellen, WI, a dairy operation. His current term on the board began in 2014 and expires in 2017.

William McCue is a self-employed grain farmer. He is also a partner in McCue Family Farms Partnership, Belle Plaine, MN, a grain operation. His current term on the board began in 2013 and expires in 2016.

Gregory Nelson is a self-employed grain and livestock farmer. He is also on the board of the Wisconsin Beef Council, Madison, WI, a trade group and he is President of the Elmwood Public School Board, Elmwood, WI. His current term on the board began in 2014 and expires in 2017.

Lawrence Romuald, Appointed Director, is the Treasurer and CFO of Cooperative Resources International, Shawano, WI, a holding cooperative, and is an officer in AgSource Cooperative Services, Central Livestock Association, and Genex Cooperative, Inc., all of which are cooperative service providers in Shawano, WI. He is also the Chairperson of the Plan Sponsor Committee for Foundations, a pension and benefits organization. His current term on the board began in 2013 and expires in 2015.

Lowell Schafer is a self-employed livestock farmer. He is also President of Schafer Farms, Goodhue, MN, a livestock operation. His current term on the board began in 2012 and expires in 2015.

Rick Sommers is a self-employed farmer. He ran a dairy operation until late 2014. His current term on the board began in 2012 and expires in 2015.

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. In 2014, the Board of Directors' per diem rate was $400 per day plus travel time compensation for each meeting attended. The Board of Directors regular monthly meetings are normally two days in length. In addition, they hold two, three-day planning sessions annually. In 2014, each Director received a $1,000 per month retainer fee, with the exception of the chairperson who received a $1,500 per month retainer fee. The Board committee chairperson for the Audit Committee, Human Resources Committee, and Credit Committee each received an additional retainer of $100 per month. Each Director is eligible for a variable retainer fee based on companywide financial and business objectives. The award is calculated as a percentage of the Director's annual per diem compensation. The performance criteria include return on equity, operating revenue growth, adverse assets to risk funds ratio, net operating rate, client satisfaction, and client loyalty. Under the terms of the plan, no payments are made in the event our return on equity or adverse assets to risk funds ratio fall outside specified threshold levels. The percentage used in the award calculation depends on the actual results for each performance criteria.

Information regarding compensation paid to each director who served during 2014 follows:

	Number of Days Served		Compensation		
	Board Meetings	Other Official Activities	for Service on a Board Committee	Name of Committee	Total Compensation in 2014 [1]
Wesley Beck	25	24	$ 1,660	Audit	$ 40,018
Eunice Biel [2]	4	3	449	Human Resources	5,072
David Bollman	25	25	1,806	Human Resources	42,783
Theresa Ann Broome	25	14	2,000	Human Resources	41,594
Kaye Compart	24	25	1,687	Human Resources	40,352
Terry Ebeling	25	21	1,687	Audit	40,500
Spencer Enninga	25	30	1,857	Audit/Credit [4]	50,641
Larry Fischer	25	18	1,684	Audit	38,983
Dale Holmgren	25	19	1,714	Credit/Human Resources [5]	38,706
Steven Johnson	25	20	1,837	Human Resources	40,140
William Kiehne [3]	21	17	1,344	Credit	35,576
Kevin Koppendrayer	25	19	1,720	Audit	40,264
David Kretzschmar	24	16	1,954	Credit	36,704
William McCue	25	12	1,645	Credit	35,089
Gregory Nelson	25	18	1,678	Credit	37,429
Lawrence Romuald	24	13	1,925	Audit	35,661
Lowell Schafer	25	14	1,666	Credit	36,450
Rick Sommers	24	14	1,675	Credit/Human Resources [6]	35,737
Total	421	322	$ 29,988		$ 671,699

[1] Compensation in 2014 includes taxable fringe benefits, if applicable.

[2] First elected to Board in 2014.

[3] No longer on Board at December 31, 2014.

[4] Detail for compensation for service on Committees: Audit - $1,385, Credit - $472

[5] Detail for compensation for service on Committees: Credit - $428, Human Resources - $1,286

[6] Detail for compensation for service on Committees: Credit - $1,254, Human Resources - $421

Senior Officers

The senior officers, and the date each began in his current position, include:

Rodney W. Hebrink	President and Chief Executive Officer	July, 2014
Joseph R. Deufel	Executive Vice President, Chief Credit Officer and Asst Secretary	July, 1991
Jase L. Wagner	Senior Vice President and Chief Financial Officer	October, 2014
James W. Manley	Executive Vice President and Chief Relationship Mgmt Officer	September, 2001
Paul B. Kohls	Sr. Vice President, General Counsel, and Secretary	January, 2012

Mr. Deufel and Mr. Manley have held their current positions for the past five years.

Paul A. DeBriyn served as our President and Chief Executive Officer through June, 2014. Mr. DeBriyn will remain employed by AgStar as a Strategic Advisor until April, 2015.

From October, 2011 until July, 2014, Mr. Hebrink was with us as Executive Vice President and Chief Financial Officer. Mr. Hebrink was Senior Vice President and Chief Financial Officer prior to October, 2011.

From 2009 to 2013 Mr. Wagner was with us as Vice President of Capital Management. In 2014, Mr. Wagner took the position of Managing Director, Agri-Access until beginning his current position.

Prior to 2012, Mr. Kohls was an Assistant General Counsel with us, originally hired in 2010. From 2005 to 2010, he was an attorney and Director of Government Affairs for Allianz Life Insurance Company of North America. During that same period, he was also a member of the Minnesota House of Representatives.

Mr. Hebrink is also on the board of Farm Credit Foundations, a pension and benefits service provider.

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 offices once it has been mailed to our stockholders.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 13 of this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at P.O. Box 4249, Mankato, MN 56002-4249, by phone (866-577-1831), by e-mail to AgStarEteam@agstar.com, or at our website, www.agstar.com.

The total directors' travel, subsistence, and other related expenses were $350 thousand, $254 thousand, and $185 thousand in 2014, 2013, and 2012, 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, 2015 or at any time during 2014.

Client Privacy

The FCA Regulations protect clients' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our clients 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 stockholders and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2014 for audit services were $119 thousand and $2 thousand was paid for accounting research software.

Financial Statements

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

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

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

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, sex, creed, religion, national origin, age, disability, marital status, sexual orientation, public assistance status, veteran status, genetic information, pregnancy or any other status protected by law. We comply with all federal, state, and local equal opportunity employment regulations. All personnel decisions and processes relating to our employees and job applicants are conducted in an environment free of discrimination and harassment. We are committed to recruiting, hiring, providing standard benefits, training, and promoting without regard to the above listed factors.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

AgStar Financial Services, ACA
(Unaudited)

We have specific programs in place to serve the credit related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers are as follows:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Mission Statement: We will provide ongoing access to credit, related services and outreach programs to qualified young, beginning and small farmers.

Policy to complete Mission Statement: We will actively develop and execute an annual business plan to qualified young, beginning and small (YBS) farmers. This plan will target and serve YBS farmers through a variety of credit and outreach programs in an effort to help the next generation of farmers succeed. We are further committed to supporting educational and developmental opportunities to this segment of farmers.

2014 Business Environment

The number of young farmers within our territory has increased during the last several years. The 2007 USDA census data showed the young farmer population within our territory at 6%. Data from the 2012 USDA census revealed the young farmer population is now 12%. In comparison, 17% of our total loans are to young farmers. (The USDA census information and FCA definition of young farmers varies slightly. USDA information is reported for farmers 34 years of age and younger, versus the FCA's definition of 35 years of age and younger.)

The number of beginning farmers has increased slightly over the past years. According to the USDA census, beginning farmers within our territory increased from 20% in 2007 to 21% in 2012. Using the FCA definition, 22% of our total loans are made to beginning farmers. (The USDA census information and FCA definition of beginning farmers slightly differs. While FCA defines a beginning farmer as an individual with 10 years or less experience, the USDA reports those who have been farming the same farm for 9 years or less.)

In the small farmer area there has been a widening disparity in gross farm income (GFI) between the large and small farmers. Of farmers surveyed in the 2007 census, 87% had less than $250 thousand in total value of sales. In the 2012 USDA census, this decreased to 81%. Forty-two percent of our total loans are to small farmers. (The FCA definition of a small farm [less than $250 thousand in annual gross sales] varies some from the USDA census information, which is reported as total value of sales.)

In 2014, we targeted $4.1 billion of aggregate YBS lending. Total aggregate YBS lending at year end 2014 was $4.2 billion, putting us above our targeted level.

Our YBS goals and results for 2014 were:

Total number of loans to Young, Beginning and Small Farmers			
	Goal	Actual	% of Goal
Young	10,500	10,516	100%
Beginning	12,900	12,963	100%
Small	24,700	25,146	102%

New loans made in 2014 to Young, Beginning and Small Farmers				
	Number of loans		TLO* (in millions)	
	Goal	Actual	Goal	Actual
Young	4,600	4,220	$430	$397
Beginning	5,300	4,796	$420	$434
Small	11,100	10,438	$475	$436

* TLO - Total Legal Obligation

The number of new loans to YBS farmers fell short of all targeted levels. Of the loans that utilized government agency guarantees in 2014, 62% were to YBS farmers.

2014 Highlights

Each of our Financial Service Officers was charged with establishing relationships and writing new loans with six new, young or beginning farmer prospects in 2014. The average number of new, young or beginning clients per Financial Service Officer achieved was 7.6, surpassing the targeted level. Ongoing informal mentoring and financial counseling is provided as a normal course of business to young and beginning farmers. Closely linked to the mentoring program is the offering of related services. Financial Service Officers, through their normal course of business, also discuss the advantages and availability of other products and services, including crop insurance, cash management and online banking services which are also available to YBS farmers.

As part of our YBS educational and outreach initiatives, we offered the “GroundBreakers Educational Conference” in February 2014. The two-day conference featured sessions on outlooks for the grain, dairy, swine, and beef industries, Women in Agriculture panel, legislative affairs update, succession planning, and how to improve financial ratios. The conference was attended by over 300 clients and prospects. Additionally, the AgStar Scholars program (supported by the AgStar Fund for Rural America) continues to offer financial assistance and internship opportunities to students studying agriculture at the University of Minnesota or the University of Wisconsin – River Falls. Ten college students were awarded scholarships in 2014. The Fund also awarded twenty-five $1,000 scholarships to graduating high school seniors who are moving on to study agriculture at the university or technical college level. We continue to provide young and beginning farmers with tuition assistance for state Farm Business Management programs. The program provided partial tuition assistance to 16 clients and non-clients throughout our territory in 2014. We continue to be a financial sponsor of many innovative programs and conferences, the MN FFA Star awards, and the “Ag in the Classroom” program, just to name a few.

Programs for YBS farmers include standards and guidelines to provide for extension of sound and constructive credit, consistent with our business objectives. We review the YBS lending programs and underwriting standards on an ongoing basis. To minimize credit and profit risk exposure, maximum portfolio concentration and program graduation criteria were included in the program. Additionally, a risk pool of $50 million is available annually for YBS farmer loans and leases. In 2014, almost $44 million of the risk pool was utilized. The usage of the risk pool has increased significantly over the past few years as a result of continued YBS program enhancements.

FUNDS HELD PROGRAM

AgStar Financial Services, ACA
(Unaudited)

Purpose

This policy provides direction to management for administering uninsured voluntary and involuntary accounts in compliance with FCA Regulation 614.4175.

Objective

FCA Regulation 614.4175 provides that the association may provide funds to borrowers from voluntary advance conditional payment accounts in lieu of increasing the borrower's loan. The association also may establish involuntary payment accounts for purposes identified in the regulation and this policy. The direction in this policy provides for regulatory compliance in the administration of such voluntary and involuntary accounts and their management to avoid liquidity risk.

Voluntary Advance Conditional Payment Accounts

Voluntary advance conditional payments are available for the benefit and convenience of clients who desire to make conditional payments. The voluntary account balance may not exceed the outstanding balance on the related loan(s). Loans having a prepayment penalty or variable interest rate cap should not have a funds held balance greater than 10% of the principal balance.

The association will generally pay interest for the time voluntary funds are held unapplied at a floating rate of 50 basis points above the Federal Open Market Committee's target for the federal funds rate. Rate changes will be effective within 60 days of a change by the Federal Reserve board. If this calculated rate exceeds a loan's current billed interest rate, the association will pay a minimum interest rate of 50 basis points less than the loan's billed interest rate. ALCO shall have the authority to adjust the rate paid on funds held if the federal funds rate target no longer provides a reasonable correlation to the Association's variable cost of funds. Any change by ALCO in the method of determining the funds held rate shall be reported to the board within 60 days. The association will pay interest equal to the loan's billing rate on funds held required to be maintained either as a condition of the loan or required as a consequence of the repayment structure.

Withdrawal of Funds

Funds in a funds held account may be available to be returned to clients, upon request, for an eligible loan purpose in lieu of increasing the client's loan. Withdrawals from Funds Held in general should be limited and in general should not be less than $100. Upon the death of a client who has funds held balances, the association does not set up death beneficiaries or "payable on death" designations to distribute funds held balances.

Involuntary Payment Accounts

The association may establish involuntary payment accounts including, but not limited to, funds held for borrowers, such as loan proceeds to be disbursed for which the borrower is obligated; the unapplied insurance proceeds arising from any insured loss; any insurance premiums and applicable taxes collected in advance in connection with any loan.

Amounts in involuntary payments accounts must be reasonable for the purpose for which the account is intended, for example, equal to annual payments of insurance and taxes plus a reasonable contingency, funds for construction projects, or insurance proceeds to rebuild.

The association may pay a different rate of interest on funds held that are required to be maintained either as a condition of the loan or which have other restricted purposes such as insurance and tax escrows or insurance proceeds. If the interest rate on the involuntary payment account is above the association's standard funds held rate, the funds held balance should be limited to 20% of the principal balance.

ALCO shall have authority to adjust the rate paid on funds held if the federal funds rate target no longer provides a reasonable correlation to the Association's variable cost of funds. Any change by ALCO in the method of determining the funds held rate shall be reported to the board within 60 days.

Withdrawal of Funds on Involuntary Payment Accounts

Involuntary payment accounts may be used only for their specifically designated purpose. Withdrawal of escrow funds may be permitted if the funds are needed to protect the loan collateral or it is not adverse to the association's best interest to release the funds.

Agreement/Disclosures

The association shall require written agreements with borrowers and adequate disclosures regarding:

- The uninsured status of voluntary advance conditional payment funds or involuntary payment account funds and an explanation of the risk in the event of the association's liquidation;
- Limits on amounts that can be paid into voluntary advance conditional payment accounts or involuntary payment accounts;
- Interest rates that will be paid, including the terms of variable interest rates; and
- Withdrawal guidelines.

Liquidation

In the event of association liquidation, all borrowers having funds in voluntary or involuntary uninsured accounts shall be notified in accordance with FCA Regulation 627.2735. The notice shall advise that the funds ceased earning interest when the receivership was instituted, and the funds will be applied against the outstanding indebtedness of any loans of such borrower unless, within 15 days of such notice, the borrower directs the receiver to otherwise apply such funds in the manner provided for in existing loan documents.

The CEO, or other officer designated by the CEO, shall be responsible for developing and maintaining procedures to ensure administration of this policy.

The Board of Directors shall review the ongoing adequacy of this policy at least annually.

Delegated and Retained Authorities

All authorities included in the operating parameters are delegated as specified and to the extent not delegated are retained by the Board of Directors.

Exceptions

Any exceptions to this policy shall require approval of the Board of Directors and, at the option of the Board, may receive post approval.

Reporting

Material issues regarding this policy shall be reported to the Board of Directors by the CEO, or other association officer designated by the CEO, at such times and in such format as the CEO determines appropriate.

Revision Approval Date: 2/26/03; 2/22/07; 12/17/09; 11/18/10; 2/19/14

Initial Board Approval Date: 12/16/98

Related Documents

FCA Regulations 614.4175 and 627.2735; FCA BL-030


IT'S YOUR Story

AgStar
Financial Services, ACA

1921 Premier Drive
Mankato, MN 56001