



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of AgStar Financial Services, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. Our 2010 annual report should also be read for a description of our organization, operations and significant accounting policies.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect shareholders' investment in AgStar Financial Services, ACA. To request free copies of the AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at P.O. Box 4249, Mankato, MN 56002-4249 or by e-mail to AgStarEteam@agstar.com or at our website, www.agstar.com. You may also contact AgriBank at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or by e-mail to agribankmn@agribank.com. The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

Loan Portfolio

Loan volume totaled \$4.9 billion at March 31, 2011, a \$5.8 million decrease from December 31, 2010. This decrease is due to nonaccrual loans paying off partially offset by increases in mortgage loan volume.

Risk Assets

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

	March 31 2011	December 31 2010
As of:		
Loans:		
Accruing restructured	\$ --	\$ --
Past due 90 days or more still accruing	2,139	1,570
Nonaccrual	177,954	190,804
Total risk loans	180,093	192,374
Other property owned	7,941	5,851
Total risk assets	\$188,034	\$198,225
Risk loans as a % of total loans	3.6%	3.9%
Total delinquencies as a % of total loans	2.1%	2.4%

Our risk assets have decreased from December 31, 2010, but remain outside our targeted credit standards.

The decrease in nonaccrual loans was due to settling adverse asset volume mainly through payoffs and upgrading certain accounts in the ethanol and swine segments of our portfolio. Additional reductions resulted from chargeoffs on selected accounts adversely affected by the economic factors in their industries. Nonaccrual loan volume is above our credit standards at March 31, 2011, and represented 3.6% of our total portfolio. We are actively engaged in working with clients to provide individualized servicing plans and strategies. At March 31, 2011, 57.7% of our nonaccrual loans were current.

We acquired certain properties in the first quarter of 2011 resulting from the continued weakness in the housing industry.

Portfolio Credit Quality

Our adversely classified assets ratio improved an additional 0.6%, continuing the improvement in 2010, and ended the 1st quarter of 2011 at 8.1% of the portfolio. This is the result of adverse assets paying off, upgrading certain accounts in the ethanol and swine segments and from chargeoffs on selected accounts. Adversely classified assets are assets we have identified as showing some credit weakness outside our credit standards. These calculations do not include operating leases or investment assets. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At March 31, 2011, \$263 million of our loans were, to some level, guaranteed under these governmental programs.

Agricultural and Economic Conditions

We serve many sectors in agriculture including our primary industries of grain, swine and dairy operations. Current credit quality, delinquencies, and non-accrual trends have continued to improve through the first quarter of 2011. Continued improvement is anticipated for the balance of the year. Minnesota and Wisconsin field work has been delayed this spring by adverse weather conditions. U.S. corn growers plan to plant nearly 92.2 million acres of corn this year which is a 4.5% increase over last year. According to the 2011 USDA Planting Intentions report, Minnesota growers fully intend to join in this trend, increasing corn planting by 300,000 acres over last year, for a total of 7.9 million acres. Wisconsin farmers intend to increase acres planted in corn by 150,000 for a 4% increase over 2010.

High corn prices are impacting swine, dairy, poultry and ethanol producers. Swine producers returned to profitability in 2010 with many producers posting strong earnings. Profits have remained in spite of increased feed costs. The dairy industry has shown improvement as prices have improved and are expected to continue to be good. The ethanol sector continues to be profitable, but profit margins remain under pressure due to the high corn prices. Agricultural related businesses have generally been profitable and fared better during the past two years than companies not closely tied to agriculture.

The rural housing industry in our local service area continues to face challenges in 2011, but there are signs the industry has moved beyond the worst times. Housing values in the upper Midwest did not have the extreme highs and lows that have been evident along the east and west coasts, but this region has also had its struggles. It appears there will be some upward trends in interest rates as we continue to progress through 2011. Outside factors such as the unemployment rate, rising energy costs, foreclosure rates and the economy in general will continue to be monitored in 2011.

Some of our core credit objectives include working with clients to promote risk management, 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.

Land Values

Declining land values following sustained periods of land value increases have historically created conditions of considerable risk for collateral-based lenders. 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. To date, agricultural land values have escaped the valuation declines that other assets suffered during the recession. This is largely because grain farming remained profitable throughout the economic crisis period.

Our credit risk policies emphasize loan repayment capacity in addition to conservative assessments of collateral values that secure loans. Although Farm Credit Administration 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 appraised value 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.

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. The most recent real estate market survey as of June 30, 2010, indicated that regional agricultural land value ranges in some areas of our territory had increased as much as 8.8% in the previous 12 months. On average, however, our real estate values increased 2.5% over the twelve-month period ending June 30, 2010.

Funding

The Farm Credit System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During the first three months of 2011, investor demand for Systemwide Debt Securities has remained favorable across all products and AgriBank, our wholesale funding bank, continues to refinance callable bonds when possible in order to lower their cost of funds.

The Farm Credit System is a government-sponsored enterprise that has benefited from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. On April 18, 2011, Standard & Poor's revised its outlook for the long-term sovereign credit for the United States from "stable" to "negative", though affirming its "AAA" rating. Two days later, Standard & Poor's affirmed the "AAA" status for all government-sponsored enterprises, including the Farm Credit System, but similarly revised its outlook from "stable" to "negative". Since this announcement was made, it has not affected our access to the debt market and we currently do not expect this to change in the future.

Allowance for Loan Losses

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

Comparative allowance coverage of various loan categories follows:

	March 31	December 31
Allowance as a percentage of:	2011	2010
Loans	0.7%	0.8%
Nonaccrual loans	19.6%	20.6%
Total risk loans	19.4%	20.4%

The decrease in allowance levels reflects the improvement in our credit quality. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2011.

Results of Operations

Net income for the three months ended March 31, 2011, totaled \$23.4 million compared to \$18.0 million for the same period of 2010. The following table illustrates profitability information:

As of March 31	2011	2010
Return on average assets	1.7%	1.3%
Return on average members' equity	12.6%	10.5%

The following table summarizes the changes in components of net income for the three months ended March 31, 2011, compared to the three months ended March 31, 2010 (in thousands):

Increase (decrease) in net income	2011 vs 2010
Net interest income	\$4,477
Provision for loan losses	8,489
Patronage income	(7)
Net operating lease income	(78)
Other income, net	(7,579)
Operating expenses	(4,237)
Provision for income taxes	4,363
Total change in net income	\$5,428

Net interest income was \$36.9 million for the three months ended March 31, 2011. The following table quantifies changes in net interest income for the three months ended March 31, 2011, compared to the three months ended March 31, 2010 (in thousands):

Change in net interest income	2011 vs 2010
Changes in AgriBank note payable and earning assets	\$1,368
Changes in rates on AgriBank note payable and earning assets	1,195
Changes due to asset securitization	133
Changes in deferred income	150
Changes due to capital management	(217)
Changes in nonaccrual income	1,848
Net change	\$4,477

The decrease in the provision for loan losses compared to 2010 reflects the overall improved economics in our portfolio. Many of our adverse accounts have paid down or off, been upgraded, or have taken chargeoffs.

The decrease in other income, net is primarily due to decreased crop insurance income and to our share of distributions from Allocated Insurance Reserve Accounts of \$5.7 million received in the first quarter of 2010. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt. Crop insurance income declined because of changes in the commission calculations made to the Standard Reinsurance Agreement between Risk Management Association and the insurance companies. This decline in crop insurance income is partially offset by an increase in total acres covered.

The operating expense increases were primarily related to increases in salary, variable compensation, benefits, and advertising/public relations expenses. Improved projected business results resulted in the increased variable compensation expense in 2011. Additionally, as described in our 2010 annual report, Note 18, upon the retirement of the 2001 patronage and improvement in the adverse assets ratio, the Board of Directors approved payment of \$1.8 million in variable compensation awards paid to certain team members in March of 2011. These increased expenses were partially offset by a decrease in the Farm Credit System insurance fund expense.

The change in provision for income taxes is primarily related to a tax provision reversal due to the tax deduction from the redemption of the remainder of the 2001 nonqualified patronage allocations.

We originate rural home loans for resale into the secondary market. We sold loans through the secondary market totaling \$9.6 million through March 31, 2011, compared to \$8.1 million through March 31, 2010. The fee income from this activity totaled \$234 thousand for the three month period ended March 31, 2011, compared to \$128 thousand for the three month period ended March 31, 2010.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed above, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Funding, Liquidity and Capital section below.

Funding, Liquidity and Capital

We borrow from AgriBank in the form of a line of credit. Our promissory note matured on March 31, 2011, and was renewed for \$5.75 billion with a maturity date of March 31, 2012. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Effective January 1, 2011, we are subject to a 6 basis point risk premium.

Total members' equity increased \$10.2 million from December 31, 2010, due to net income for the period and an increase in capital stock and participation certificates, partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2010 annual report for a more complete description of these ratios. As of March 31, 2011, the ratios were as follows:

- The permanent capital ratio was 14.6%.
- The total surplus ratio was 14.3%.
- The core surplus ratio was 11.0%.

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

Certification

The undersigned certify they have reviewed AgStar Financial Services, ACA's March 31, 2011, quarterly report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Lowell Schafer
Chairperson of the Board
AgStar Financial Services, ACA



Paul A. DeBriyn
President and Chief Executive Officer
AgStar Financial Services, ACA



Rodney Hebrink
Senior Vice President and Chief Financial Officer
AgStar Financial Services, ACA

May 10, 2011

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA

(Dollars in thousands)

(Unaudited)

	March 31	December 31
	2011	2010
ASSETS		
Loans	\$4,909,404	\$4,915,210
Allowance for loan losses	34,868	39,312
Net loans	4,874,536	4,875,898
Investment securities	473,086	467,143
Assets held for lease, net	34,592	35,608
Accrued interest receivable	41,901	43,577
Investment in AgriBank, FCB	126,645	126,160
Premises and equipment, net	15,872	15,285
Other property owned	7,941	5,851
Other assets	36,601	44,069
Total assets	\$5,611,174	\$5,613,591
LIABILITIES		
Note payable to AgriBank, FCB	\$4,690,132	\$4,694,170
Subordinated debt	100,000	\$100,000
Accrued interest payable	28,173	30,354
Net deferred income tax liability	3,233	3,376
Other liabilities	34,834	41,093
Total liabilities	4,856,372	4,868,993
Contingencies and Commitments	--	--
MEMBERS' EQUITY		
Capital stock and participation certificates	14,209	14,125
Allocated surplus	261,962	265,010
Unallocated surplus	478,631	465,463
Total members' equity	754,802	744,598
Total liabilities and members' equity	\$5,611,174	\$5,613,591

CONSOLIDATED STATEMENTS OF INCOME

AgStar Financial Services, ACA

(Dollars in thousands)

(Unaudited)

Period ended March 31	Three Months	
	2011	2010
Interest income	\$64,793	\$65,092
Interest expense	27,909	32,685
Net interest income	36,884	32,407
Provision for loan losses	1,068	9,557
Net interest income after provision for loan losses	35,816	22,850
Other income		
Patronage income	2,548	2,555
Net operating lease income	525	603
Financially related services income	5,805	7,375
Fee and miscellaneous income, net	3,791	9,800
Total other income	12,669	20,333
Operating expense		
Salaries and employees benefits	18,999	15,110
Other operating	7,735	7,387
Total operating expenses	26,734	22,497
Income before income taxes	21,751	20,686
Provision for income taxes	(1,695)	2,668
Net income	\$23,446	\$18,018

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgStar Financial Services, ACA

(Dollars in thousands)

(Unaudited)

	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2009	\$13,400	\$229,862	\$433,858	\$677,120
Net income	--	--	18,018	18,018
Cumulative effect of accounting change	--	--	1,311	1,311
Surplus allocated as nonqualified patronage	--	9,725	(9,725)	--
Redemption of prior year allocated patronage	--	(276)	--	(276)
Capital stock/participation certificates issued	264	--	--	264
Capital stock/participation certificates retired	(229)	--	--	(229)
Balance at March 31, 2010	\$13,435	\$239,311	\$443,462	\$696,208
Balance at December 31, 2010	\$14,125	\$265,010	\$465,463	\$744,598
Net income	--	--	23,446	23,446
Surplus allocated as nonqualified patronage	--	10,278	(10,278)	--
Redemption of prior year allocated patronage	--	(13,326)	--	(13,326)
Capital stock/participation certificates issued	380	--	--	380
Capital stock/participation certificates retired	(296)	--	--	(296)
Balance at March 31, 2011	\$14,209	\$261,962	\$478,631	\$754,802

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Significant Accounting Policies

Our 2010 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2010. These unaudited first quarter 2011 consolidated financial statements should be read in conjunction with the 2010 annual report.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

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

Recent Accounting Developments

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance will have no impact on our financial condition or results of operations, but it will result in additional disclosures.

In April 2011, the FASB issued guidance entitled "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring". This guidance provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The new guidance will require creditors to evaluate modifications and restructurings of receivables using a more principles-based approach, which may result in more modifications and restructurings being considered troubled debt restructurings. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance will have no impact on our financial condition or results of operations, but may result in additional disclosures.

NOTE 2: Investment Securities

We held investment securities of \$473 million at March 31, 2011, and \$467 million at December 31, 2010, consisting of investment securities made up of a portion of loans guaranteed by the Small Business Administration (SBA) or the United States Department of Agriculture (USDA) and securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). The securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio

The following table presents the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
As of March 31, 2011					
SBA / USDA	\$100,746	\$136	(\$2,260)	\$98,622	3.7%
Farmer Mac	372,340	6,255	(2,022)	376,573	5.4%
Total	\$473,086	\$6,391	(\$4,282)	\$475,195	4.2%
As of December 31, 2010					
SBA / USDA	\$80,208	\$77	(\$668)	\$79,617	3.4%
Farmer Mac	386,935	7,136	(1,889)	392,182	5.4%
Total	\$467,143	\$7,213	(\$2,557)	\$471,799	5.1%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$5.0 million for the three month period ended March 31, 2011, and \$6.1 million for the three month period ended March 31, 2010.

The contractual maturities of the investment securities at March 31, 2011, are \$6.1 million in one year or less, \$31.4 million in one to five years, \$109.2 million in five to ten years and \$326.4 million in more than ten years.

NOTE 3: Allowance for Loan Losses

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

Three months ended March 31	2011	2010
Balance at beginning of year	\$39,312	\$60,501
Provision for loan and lease losses	1,068	9,557
Loan recoveries	165	1,668
Loan chargeoffs	(5,701)	(6,268)
Other	24	147
Balance at end of period	\$34,868	\$65,605

The decrease in our allowance and provision levels reflects the significant improvements made in the ethanol, swine and dairy segments of our portfolio from one year ago. Total risk loans have declined 20% from \$224,895 at March 31, 2010 to \$180,093 at March 31, 2011.

The following table presents information concerning risk loans (in thousands):

	March 31 2011	December 31 2010
As of:	2011	2010
Volume with specific reserves	\$66,405	\$84,309
Volume without specific reserves	113,688	108,065
Total risk loans	\$180,093	\$192,374
Total specific reserves	\$11,579	\$16,674
Three months ended March 31		
Income on accrual risk loans	\$35	\$177
Income on nonaccrual loans	2,529	59
Total income on risk loans	\$2,564	\$236
Average recorded investment	\$186,234	\$224,590

The decrease in risk loans was due to settling adverse asset volume mainly through upgrades, payoffs, and chargeoffs on selected accounts.

NOTE 4: Contingencies and Commitments

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

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

NOTE 5: Capital

On January 20, 2011, the Board of Directors authorized the retirement of the remainder of the \$13.9 million of 2001 nonqualified patronage allocations. This retirement was substantially completed by February 1, 2011. The timing of this payout occurred within the Board of Directors targeted 7-10 year retirement timeframe. The timing of all future redemptions 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.

NOTE 6: Fair Value Measurements

The FASB guidance on "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 15 in our 2010 annual report for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2011, or December 31, 2010. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

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

	Fair Value Measurement Using			Total Fair Value	Total Gain (Loss)
	Level 1	Level 2	Level 3		
March 31, 2011					
Loans	\$ --	\$7,080	\$50,487	\$57,567	\$5,095
Other property owned	--	--	10,110	10,110	(270)
December 31, 2010					
Loans	\$ --	\$11,530	\$59,486	\$71,016	\$16,532
Other property owned	--	--	7,275	7,275	(1,505)

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. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. 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.

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

NOTE 7: Subsequent Events

We have evaluated subsequent events through May 10, 2011, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our quarterly report or disclosure in the Notes to those financial statements.