



Patronage Q & A

Why does AgStar have a patronage program?

- It is in the best interest of our clients to allocate our earnings.
- Dividends create additional value for AgStar stockholders.

How is my dividend determined?

- AgStar's Board determines the amount of earnings to allocate.
- Allocations are based on the amount of business you do with AgStar.

First, the Board determines the share of earnings to be distributed and the products that are eligible for patronage. Currently, the organization allocates 55% of earnings. Second, we establish product pools and profitability by product area within the organization. Third, the allocation is based on your business within that pool as a percentage of the total size of the pool. For loans, the allocation is based on gross interest you paid, less our cost of funds on your loan.

Not all products are eligible for patronage. Leases, for example, are not included in the patronage allocation because lease rates are already based in part on tax benefits. Patronage is allocated only on the loans or portions of loans that AgStar owns.

Are your patronage dividends similar to those I receive from other cooperatives?

- AgStar dividends are different from most cooperatives.
- AgStar dividends are not taxable when they are allocated to you, but are taxable only when retired.

Most co-ops issue what the IRS calls "qualified" patronage dividends, meaning the dividends qualify as a tax deduction for the coop at the time that they are allocated to the client. Then you, as the recipient, pay the entire taxes due on the dividends, even though you receive only a portion of the dividend in cash or equivalent value.

AgStar issues "nonqualified" patronage dividends. You receive a notice of allocation for the dividend amount, but do not receive the dividend at that time. Allocated dividends are not included in your current taxable income until you are issued a check at retirement. Until that time, AgStar pays the taxes on the dividend allocated to you. When we redeem the dividends the value you receive, and only the value you receive, is taxable to you.

So my patronage check is considered taxable income. How do I handle it come tax time?

The enclosed dividend check is taxable income for you or your operation in 2011. We will issue an IRS Form 1099-PATR in January 2012 for the amount of the cash payment you received. This amount must be included in your 2011 state and federal income tax returns. If you have any taxation questions, please contact your AgStar representative, one of our qualified Tax Specialists or call 866-577-1831.

When are allocations retired:

- We target a 7-10 year revolvment, but can't commit to specific timing.
- Patronage is retired based on the year it is allocated.

Once our organization meets specific performance objectives, our executive leadership team and Board of Directors determines if our capital position, credit position and forecasts are at acceptable levels before making a decision. The Board determines when the organization is in position to retire any outstanding dividend allocations.



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