



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 2009 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 via electronic 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 via electronic 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 \$4.7 billion at March 31, 2010, an \$85 million decrease from December 31, 2009. This decrease is primarily due to a decrease in our commercial loan portfolio. We have refocused our marketing efforts in financial counseling and providing excellent client service.

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

	March 31 2010	December 31 2009
As of:		
Loans:		
Accruing restructured	\$961	\$959
Past due 90 days or more still accruing	5,995	9,369
Nonaccrual	217,939	213,957
Total risk loans	224,895	224,285
Other property owned	6,339	4,406
Total risk assets	\$231,234	\$228,691
Risk loans as a % of total loans	4.7%	4.6%
Total delinquencies as a % of total loans	4.1%	3.8%

Our risk assets have not changed significantly from December 31, 2009, and are above our targeted credit standards.

The increase in nonaccrual loans was due to dairy and swine producers adversely affected by sustained low commodity prices for the past several months. In addition, several commercial accounts have also been adversely impacted by the weak economy. Nonaccrual loan volume is above our credit standards at March 31, 2010, and represented 4.6% of our total portfolio. We are actively engaged in working with clients to provide individualized servicing plans and strategies. At March 31, 2010, 27.4% of our nonaccrual loans were current.

We acquired certain properties in the first quarter 2010 resulting from the volatility in the commodity and financial markets during 2009.

Adversely classified assets have increased to 12.0% of the portfolio at March 31, 2010, from 11.6% of the portfolio at December 31, 2009. Adversely classified assets are loans and finance and conditional sales leases 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, 2010, \$235 million of our loans were, to some level, guaranteed under these governmental programs.

Our main agricultural enterprises consist of grain, swine and dairy operations. Current credit quality, delinquencies, and non-accrual statistics have stabilized but remain lower than our long term objectives.

Favorable weather conditions this spring have resulted in corn planting being significantly ahead of schedule compared to historical trends. The USDA is forecasting an all-time record number of acres for the total of corn and soybeans to be planted in 2010. Projected average prices for 2010 for corn and soybeans are down compared to the past 2 to 3 years. Expected profit margins are narrow. Swine producers continued to experience losses in 2009, but prices have strengthened during the first quarter of this year. The year 2010 is expected to be profitable for hog producers and producers have had opportunities to lock in strong margins. The dairy situation has improved compared to 2009 but margins remain narrow. Milk prices are expected to improve as the year progresses. The all milk price forecast for 2010 is \$15.45-\$15.95/cwt.

The ethanol industry has strengthened and showed profit margins for many ethanol plants since mid 2009. Lower crop prices are having a positive impact for both livestock and ethanol producers. Agricultural related businesses have generally been adversely impacted by the overall weak

economy, but have typically fared better than those companies which are not closely tied to agriculture.

Farm real estate values in our LSA have been stable overall during 2009 and early 2010 compared to 2008 values. Values for transitional and recreational property have declined in some areas compared to the peak values previously reached.

The rural housing industry within our LSA will continue to face challenges in 2010, 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 not been without its struggles. The recovery of this industry is going to be slow. There continues to be a large inventory of homes and potential home sites on the market. Marketing times in the Midwest are averaging over 9 months, longer for higher priced homes. The normal marketing time is 3 to 6 months.

Mortgage loan interest rates have remained generally within 25 basis points either side of 5.00% for a 30-year fixed rate. As a result there are plenty of opportunities to refinance for those who were fortunate to have enough value in their homes. The program for new home buyers receiving an \$8,000 tax credit just expired on April 30, 2010. This program generated home sales activity during the past year. At this point it does not appear that the program will be renewed.

Some of our core credit objectives include working with clients to promote risk management, encouraging disciplined marketing plans, and providing individualized servicing plans and strategies. We continue to be involved and support positive legislative changes for agriculture and rural America.

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:	2010	2009
Loans	1.4%	1.3%
Nonaccrual loans	30.1%	28.3%
Total risk loans	29.2%	27.0%

The increase in our allowance levels reflects the impact of the volatility in the financial and commodity markets in 2009 that continues to affect a certain portion of our clients in the animal industries. We added to our provision expense to reflect the uncertainty that exists in the portfolio. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2010.

Results of Operations

Net income for the three months ended March 31, 2010, totaled \$18.0 million compared to \$9.0 million for the same period of 2009. The following table illustrates profitability information:

As of March 31	2010	2009
Return on average assets	1.3%	0.7%
Return on average members' equity	10.5%	5.6%

The following table summarizes the changes in components of net income for the three months ended March 31, 2010, compared to the three months ended March 31, 2009 (in thousands):

Increase (decrease) in net income	2010 vs 2009
Net interest income	\$2,026
Provision for loan losses	7,296
Patronage income	(476)
Financially related services and miscellaneous income, net	5,177
Operating lease income	(85)
Operating expenses	739
Provision for income taxes	(5,656)
Total change in net income	<u>\$9,021</u>

Net interest income was \$32.4 million for the three months ended March 31, 2010. The following table quantifies changes in net interest income for the three months ended March 31, 2010, compared to the three months ended March 31, 2009 (in thousands):

Change in net interest income	2010 vs 2009
Changes in volume	(\$74)
Changes in rates	2,238
Changes in asset securitization	146
Changes in deferred income	(110)
Changes in nonaccrual income and other	(174)
Net change	<u>\$2,026</u>

The change in the provision for loan losses reflects the overall improved economics in the ethanol and swine industries compared to the increases in the allowance for loan losses in the first quarter of 2009.

Patronage income declined as a result of losses incurred in certain real estate loans participated with AgriBank.

The increase in financially related services and miscellaneous income, net is primarily due to increased crop insurance income and to our share of distributions from Allocated Insurance Reserve Accounts of \$5.7 million. 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 secure base of 2% of insured debt. These increases were partially offset by reduced fee income.

The operating expense decrease was primarily related to a reduction in the Farm Credit System insurance fund expense, partially offset by an increase in salaries and benefits expense.

The change in provision for income taxes is related to increases in the income of the taxable entities, primarily caused by the reduction in provision for loan loss expense.

We originate rural home loans for resale into the secondary market. We sold loans through the secondary market totaling \$8.1 million through March 31, 2010, compared to \$42.3 million through March 31, 2009. The fee income from this activity totaled \$128 thousand for the three month period ended March 31, 2010, compared to \$470 thousand for the three month period ended March 31, 2009.

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 February 28, 2010, and was renewed for \$5.75 billion with a maturity date of September 30, 2010. 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, 2010, we are subject to a 17 basis point risk premium. If we meet certain financial measures by the end of 2010, we are able to earn back all or a portion of the 2010 risk premium amount.

In March 2010, we issued \$100 million of subordinated notes due 2025 with a fixed 9% interest rate. These notes are unsecured and subordinate to all other categories of creditors, including general creditors, and senior to all classes of shareholders. The transaction increased our regulatory permanent capital and total surplus ratios under the Farm Credit Administration regulations and position us for the future.

Total members' equity increased \$19.1 million from December 31, 2009, due to net income for the period, the cumulative effect of an accounting change (see Note 2 for further information), and an increase in capital stock and participation certificates, partially offset by nonqualified patronage distribution retirements.

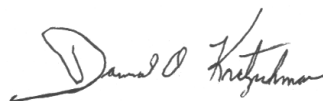
Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%.

The calculation of these ratios according to Farm Credit Administration regulations is discussed below:

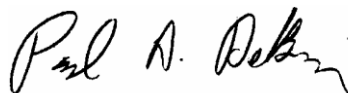
- The permanent capital ratio is generally average at-risk capital divided by average risk-adjusted assets. At March 31, 2010, our ratio was 13.1%.
- The total surplus ratio is generally average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At March 31, 2010, our ratio was 12.8%.
- The core surplus ratio is generally average unallocated surplus less any deductions made in the computation of total surplus and less any preferred stock investment in AgriBank divided by average risk-adjusted assets. At March 31, 2010, our ratio was 10.1%.

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.

The undersigned certify they have reviewed AgStar Financial Services, ACA's March 31, 2010, 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.



David O. Kretzschmar
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, 2010

CONSOLIDATED STATEMENT OF CONDITION

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

	March 31 2010	December 31 2009
ASSETS		
Loans	\$4,724,502	\$4,809,853
Allowance for loan losses	65,605	60,501
Net loans	4,658,897	4,749,352
Investment in AgriBank, FCB	128,316	132,962
Investment securities	486,950	510,027
Accrued interest receivable	45,049	50,897
Premises and equipment, net	15,410	15,460
Other property owned	6,339	4,406
Assets held for lease, net	37,251	39,010
Net deferred income tax asset	6,636	3,761
Other assets	38,880	30,884
Total assets	\$5,423,728	\$5,536,759
LIABILITIES		
Note payable to AgriBank, FCB	\$4,541,161	\$4,776,342
Subordinated debt	100,000	--
Accrued interest payable	32,109	32,278
Other liabilities	54,250	51,019
Total liabilities	4,727,520	4,859,639
MEMBERS' EQUITY		
Capital stock and participation certificates	13,435	13,400
Allocated surplus	239,311	229,862
Unallocated surplus	443,462	433,858
Total members' equity	696,208	677,120
Total liabilities and members' equity	\$5,423,728	\$5,536,759

CONSOLIDATED STATEMENT OF INCOME

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

	Period ended March 31 2010	2009
Interest income	\$65,092	\$66,448
Interest expense	32,685	36,067
Net interest income	32,407	30,381
Provision for loan losses	9,557	16,853
Net interest income after provision for loan losses	22,850	13,528
Other income		
Patronage income	2,555	3,031
Financially related services and miscellaneous income, net	17,175	11,998
Operating Lease income, net	603	688
Total other income	20,333	15,717
Operating expense		
Salaries and employees benefits	15,110	14,807
Other operating	7,387	8,429
Total operating expenses	22,497	23,236
Income before income taxes	20,686	6,009
Provision for income taxes	2,668	(2,988)
Net income	\$18,018	\$8,997

CONSOLIDATED STATEMENT 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, 2008	\$12,791	\$204,300	\$410,808	\$627,899
Net income	--	--	8,997	8,997
Surplus allocated as nonqualified patronage	--	5,730	(5,730)	--
Recemption of prior year allocated patronage	--	(7)	--	(7)
Capital stock/participation certificates issued	460	--	--	460
Capital stock/participation certificates retired	(324)	--	--	(324)
Balance at March 31, 2009	\$12,927	\$210,023	\$414,075	\$637,025
Balance at December 31, 2009	\$13,400	\$229,862	\$433,858	\$677,120
Net income	--	--	18,018	18,018
Cummulative effect of accounting change	--	--	1,311	1,311
Surplus allocated as nonqualified patronage	--	9,725	(9,725)	--
Recemption 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

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 2009 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, 2009. These unaudited first quarter 2010 consolidated financial statements should be read in conjunction with the 2009 annual report.

The accompanying consolidated financial statements contain all information 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, 2010, are not necessarily indicative of the results to be expected for the year ended December 31, 2010.

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

Effective January 1, 2010, we adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information for assets and liabilities measured on a recurring basis and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on our financial condition and results of operations but may have resulted in additional disclosures.

Effective January 1, 2010, we adopted the (FASB) amended guidance on "Accounting for Transfers of Financial Assets," which amended previous guidance by providing clarification of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The guidance also requires additional disclosure about transfers of financial assets and a transferor's continuing involvement with transferred assets. This guidance must be applied to transfers occurring on or after the effective date of January 1, 2010. Adoption of this guidance did not have a material impact on our financial statements.

Effective January 1, 2010, we adopted the FASB amended guidance on consolidation of variable-interest entities (VIE). These amendments require an assessment to determine the primary beneficiary of a VIE based on whether the entity has the power to direct matters that most significantly impact the activities of the VIE and whether the entity has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE.

Additionally, the amendments require an ongoing reconsideration of the primary beneficiary and provide a framework for the events that trigger a reassessment of whether an entity is a VIE. As a result, a securitization transaction we held was consolidated into our financial statements and will no longer be an off-balance sheet transaction. See Note 2 for further information.

NOTE 2: Investment Securities

We held investment securities classified as held-to-maturity of \$487 million at March 31, 2010, and \$508 million at December 31, 2009, consisting of investment securities made up of a portion of loans guaranteed by the Small Business Administration (SBA) and securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac). 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	Weighted Fair Value	Average Yield
As of March 31, 2010					
SBA	\$46,403	\$ --	(\$1,943)	\$44,460	3.0%
Farmer Mac	440,547	10,601	(144)	451,004	5.9%
Total	<u>\$486,950</u>	<u>\$10,601</u>	<u>(\$2,087)</u>	<u>\$495,464</u>	<u>5.6%</u>
As of December 31, 2009					
SBA	\$48,963	\$ --	(\$1,838)	\$47,125	3.0%
Farmer Mac	459,431	9,037	(7,365)	461,103	6.0%
Total	<u>\$508,394</u>	<u>\$9,037</u>	<u>(\$9,203)</u>	<u>\$508,228</u>	<u>5.7%</u>

At December 31, 2009 we also held a securitization, classified as available-for-sale. The amortized cost of this investment security was \$1.6 million at December 31, 2009. Under new FASB-issued guidance on consolidation of variable-interest entities and accounting for transfers of financial assets, effective January 1, 2010, this security was consolidated into our financial statements. The effect of the new guidance was an increase in loans and related assets totaling approximately \$39 million, an increase in notes payable and related liabilities of approximately \$38 million, and a \$1 million members' equity impact of the cumulative effect of adoption.

Investment income is recorded in "Interest income" on the Consolidated Statement of Income and totaled \$6.1 million for the period ended March 31, 2010, and \$7.6 million for the period ended March 31, 2009.

The contractual maturities of the investment securities at March 31, 2010, are \$4.8 million in one year or less, \$37.1 million in one to five years, \$119.4 million in five to ten years and \$325.7 million in more than 10 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	2010	2009
Balance at beginning of year	\$60,501	\$29,765
Provision for loan and lease losses	9,557	16,853
Loan recoveries	1,668	175
Loan chargeoffs	(6,268)	(3,196)
Other	147	1,722
Balance at end of period	\$65,605	\$45,319

The increase in our provision for loan losses reflects the impact the volatility in commodity prices and financial markets had on a certain portion of our clients in the renewable energy, grain, and animal industries.

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

As of:	March 31 2010	December 31 2009
Volume with specific reserves	\$155,582	\$139,032
Volume without specific reserves	69,313	85,253
Total risk loans	\$224,895	\$224,285
Total specific reserves	\$43,781	\$33,206
Three months ended March 31	2010	2009
Income on accrual risk loans	\$177	\$88
Income on nonaccrual loans	59	117
Total income on risk loans	\$236	\$205
Average recorded investment	\$224,590	\$154,118

Risk loan volume has not changed significantly from December 31, 2009 but remains at a higher level reflecting the volatility the financial and commodity markets experienced in late 2008 and 2009.

NOTE 4: Subordinated Debt

In March of 2010, we issued \$100 million of aggregate principal amount of Series A Subordinated Notes (Notes), due in 15 years. The Notes bear a fixed interest rate of 9.0% per annum, payable semi-annually. The Board of Directors has authorized up to a maximum of \$200 million for sub-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. 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 Farm Credit System debt and is not an obligation of, or guaranteed by any Farm Credit System entity. Further, payments on the subordinated Notes are not insured by the Farm Credit System Insurance Corporation.

NOTE 5: Contingencies

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 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. See Notes 2 and 14 in our 2009 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, 2010. At December 31, 2009 we had a residual interest in a securitization trust measured on a recurring basis. The fair value of that investment was \$1.6 million at December 31, 2009.

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, 2010					
Loans	\$ --	\$33,945	\$83,446	\$117,391	(\$10,575)
Other property owned	--	--	8,142	8,142	(160)
December 31, 2009					
Loans	\$ --	\$31,812	\$79,306	\$111,118	(\$15,365)
Other property owned	--	--	6,255	6,255	(1,366)

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. 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, 2010, which is the date the financial statements were available to be issued.

On April 15, 2010, the parties involved in our securitization transaction (as described in Note 2 above and more completely in Note 7 in our 2009 Annual Report), entered into a Termination and Release Agreement. Because of the consolidation of the variable interest entity that occurred on January 1, 2010, this change had no material effect on our financial statements.