Badgerland Financial, ACA

Quarterly Report
June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Badgerland Financial, ACA (the parent) and Badgerland Financial, FLCA and Badgerland Financial, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2013 (2013 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Badgerland Financial, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report, contact us at 1430 North Ridge Drive, Prairie du Sac, WI 53578, (877) 780-6410, or e-mail Greg.Rufsvold@badgerlandfinancial.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.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2013 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Although there were some planting delays due to cold and wet weather, most of the crops were finally planted. Overall crop conditions have been good with plenty of moisture; however, there are some areas where the corn crop, in particular, is behind due to excessive moisture. The first crop hay was very good. There was very little winter kill in spite of the cold winter. Second crop hay has been harvested in many areas; however, some areas have seen second crop hay harvest impacted by too much rain. Corn is in the tasseling stages in many areas but much further behind in other areas. The nationwide outlook for the 2014 corn and soybean harvest is very strong and has resulted in a significant drop in both old crop and new crop prices since the end of the first quarter of 2014. Current cash prices for corn are approximately $3.65/bu (down approximately $1.00/bu from the end of the first quarter) and soybeans around $12.25/bu. (down approximately $2.25/bu. from the end of the first quarter). New crop corn cash prices are estimated at $3.65/bu with new crop soybeans at $10.40/bu. Futures prices for new crop corn are approximately $3.98/bu with soybeans at approximately $11.04/bu. Although grain prices are expected to be down considerably from the past couple of years, the expectation for strong yields in many parts of our territory will help offset some of the price decline. In those areas where planting was delayed by excessive moisture and which continue to face too much moisture during the growing season; there could be a significant impact on yields.

The average class III milk price for the second quarter was $22.75/cwt which compares to $18.04/cwt for the same quarter last year. Calendar year 2013 averaged $17.99/cwt. 2014 prices through June have averaged $22.68/cwt. Milk futures for the balance of 2014 (July-Dec) currently average $20.01/cwt. (all milk prices are before premiums). Export demand for dairy products continues to remain strong. Although milk prices are expected to be lower in the second half of the year, prices are expected to remain relatively strong. With some easing of high feed prices along with continued historically strong milk prices there should be good earnings in the dairy sector in 2014. The strong milk prices have resulted in an increase in expansion activity and bred heifer and replacement cow prices have been increasing.

Real estate sales activity has slowed in 2014. Although prices have remained strong, the rate of increase in land values has slowed and in some areas stabilized. The association's benchmark farms that are appraised annually and are intended to be reflective of similar farms in their geographic area are showing increases of zero to five percent over the past twelve months. Depending on local demand, there are some areas where land prices have increased significantly more than what the benchmark appraisals might indicate.

There continues to be some improvement in the overall economic conditions throughout our territory which should provide for some non-farm employment opportunities.

LOAN PORTFOLIO

Loans were $3.3 billion at June 30, 2014, a $45.8 million increase from December 31, 2013. This increase was due to an increase in accrual mortgage loan volume of $106.5 million, or 4.3% since 2013 year end. This increase was primarily due to an increase in the disbursements on capital markets loans as well as other real estate loans that closed either in the fourth quarter 2013 or the first half of 2014 and that have been disbursing over the past few months. A marketing campaign that is currently underway is expected to see an increase in new mortgage loan bookings during the second half of 2014.

This increase was offset by a decrease in accrual commercial loan volume of $61.8 million, or 8.2% since 2013 year end. Much of this decrease can be attributed to the paydown of operating loans and normal amortization of term loans. Borrowers that prepaid operating expenses late 2013 or held grain inventory into 2014 for income tax purposes repaid operating loans in the first half of 2014. The credit needs for dairy operations has declined due to strong milk prices the first half of 2014. We do expect some increase in loan demand in the second half of the year as some dairy units are considering improvements and/or expansions.

Portfolio Credit Quality

The credit quality of our portfolio has slightly declined December 31, 2013. Adversely classified loans increased slightly to 2.6% of the portfolio at June 30, 2014, from 2.1% 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 losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2014, $94.2 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

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

As of:	**June 30 2014**	December 31 2013
Loans:		
Nonaccrual	**$ 10,207**	$ 9,058
Accruing restructured	**4**	4
Accruing loans 90 days or more past due	**1,963**	1,029
Total risk loans	**12,174**	10,091
Other property owned	**525**	1,293
Total risk assets	**$ 12,699**	$ 11,384
Risk loans as a percentage of total loans	**0.4%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.3%**	0.3%
Total delinquencies as a percentage of total loans	**0.6%**	0.4%

Our risk assets have increased from December 31, 2013, but remain at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The increase in nonaccrual loans was due to a transfer of a loan originated under our mission related investment authority to nonaccrual status during the first half of 2014. Nonaccrual loans remained at an acceptable level at June 30, 2014 and 62.8% of our nonaccrual loans were current.

The increase in accruing loans 90 days or more past due was primarily due to an increase in loans in the production and intermediate term category. Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The decrease in other property owned was due to net disposals of $768 thousand during the first half of 2014.

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, probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

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

Allowance as a percentage of:	**June 30 2014**	December 31 2013
Loans	**0.1%**	0.1%
Nonaccrual loans	**32.5%**	30.2%
Total risk loans	**27.3%**	27.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2014.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2014 totaled $36.3 million compared to $34.4 million for the same period in 2013. The following table illustrates profitability information:

For the six months ended June 30	2014	2013
Return on average assets	**2.1%**	2.2%
Return on average members' equity	**10.3%**	10.9%

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

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

For the six months ended June 30	2014	2013	Increase (decrease) in net income
Net interest income	**$ 46,441**	$ 43,827	**$ 2,614**
Provision for (reversal of) loan losses	**910**	(414)	**(1,324)**
Patronage income	**10,771**	9,935	**836**
Other income	**5,915**	4,607	**1,308**
Operating expenses	**26,161**	24,172	**(1,989)**
(Benefit from) provision for income taxes	**(257)**	167	**424**
Net income	**$ 36,313**	$ 34,444	**$ 1,869**

Net interest income was $46.4 million for the six months ended June 30, 2014. The following table quantifies changes in net interest income for the six months ended June 30, 2014 compared to the same period in 2013 (in thousands):

	2014 vs 2013
Changes in volume	**$ 5,231**
Changes in rates	**(2,799)**
Changes in nonaccrual income and other	**182**
Net change	**$ 2,614**

The change in the provision for (reversal of) loan losses was primarily related to changes in loan volume and loss estimates in the portfolio.

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher average balance on our note payable.

The change in other income was primarily related to a loss related to other property owned in 2013 as well as increases in fee income and financially related services.

The change in operating expenses was primarily related to increases in salaries and benefits resulting primarily from staffing additions as well as normal annual merit increases. Additionally, we have experienced increases in Farm Credit System insurance expenses due to an increase in the premium rate.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures August 31, 2014, at which time the note will be renegotiated. 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.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at June 30, 2014 or December 31, 2013.

Total members' equity increased $31.4 million from December 31, 2013 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration (FCA) regulations require us 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%. Refer to Note 8 in our 2013 Annual Report for a more complete description of these ratios. As of June 30, 2014, the ratios were as follows:

- The permanent capital ratio was 16.1%.
- The total surplus ratio was 15.9%.
- The core surplus ratio was 15.9%.

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

RELATIONSHIP WITH AGRIBANK

We are required to invest in AgriBank capital stock as a condition of borrowing. In return for this lower required investment amount, we agreed to pay an additional spread on a portion of our note payable with AgriBank equal to the reduction in our required investment. 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 Badgerland Financial, ACA from 2.5% to 2.25% effective March 31, 2014.

ADDITIONAL REGULATORY INFORMATION

Effective June 18, 2014, the FCA Board adopted a final rule to remove all requirements related to advisory votes at Farm Credit institutions. This rule eliminates the requirement for advisory votes on CEO and/or senior officer compensation.

CERTIFICATION

The undersigned certify they have reviewed Badgerland Financial, ACA's June 30, 2014 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.

Mark W. Cade
Chairperson of the Board
Badgerland Financial, ACA

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

August 7, 2014

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

As of:		June 30 2014		December 31 2013
ASSETS				
Loans	**$**	**3,278,290**	$	3,232,452
Allowance for loan losses		**3,322**		2,740
Net loans		**3,274,968**		3,229,712
Investment in AgriBank, FCB		**93,776**		101,016
Accrued interest receivable		**18,934**		16,946
Premises and equipment, net		**15,022**		13,405
Other property owned		**525**		1,293
Other investments		**5,675**		4,250
Other assets		**24,668**		28,569
Total assets	**$**	**3,433,568**	$	3,395,191
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**2,671,148**	$	2,672,686
Accrued interest payable		**9,034**		8,436
Deferred tax liabilities, net		**1,897**		2,154
Patronage distribution payable		**4,996**		9,550
Other liabilities		**29,533**		16,816
Total liabilities		**2,716,608**		2,709,642
Contingencies and commitments		**--**		--
MEMBERS' EQUITY				
Capital stock and participation certificates		**8,245**		8,151
Unallocated surplus		**708,715**		677,398
Total members' equity		**716,960**		685,549
Total liabilities and members' equity	**$**	**3,433,568**	$	3,395,191

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA
(in thousands)
(Unaudited)

For the period ended June 30	*Three Months Ended* **2014**	2013	*Six Months Ended* **2014**	2013
Interest income	**$ 32,156**	$ 29,399	**$ 64,220**	$ 58,393
Interest expense	**9,034**	7,407	**17,779**	14,566
Net interest income	**23,122**	21,992	**46,441**	43,827
Provision for (reversal of) loan losses	**726**	22	**910**	(414)
Net interest income after provision for (reversal of) loan losses	**22,396**	21,970	**45,531**	44,241
Other income				
Patronage income	**5,207**	4,845	**10,771**	9,935
Financially related services income	**1,476**	1,812	**4,379**	4,206
Fee income	**647**	623	**1,469**	1,216
Miscellaneous income (loss), net	**37**	(1,916)	**67**	(815)
Total other income	**7,367**	5,364	**16,686**	14,542
Operating expenses				
Salaries and employee benefits	**8,098**	7,619	**16,421**	15,135
Other operating expenses	**4,708**	4,455	**9,740**	9,037
Total operating expenses	**12,806**	12,074	**26,161**	24,172
Income before income taxes	**16,957**	15,260	**36,056**	34,611
(Benefit from) provision for income taxes	**(435)**	(61)	**(257)**	167
Net income	**$ 17,392**	$ 15,321	**$ 36,313**	$ 34,444

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2012	$ 7,852	$ 608,296	$ 616,148
Net income	--	34,444	34,444
Unallocated surplus designated for patronage distributions	--	(4,776)	(4,776)
Capital stock and participation certificates issued	532	--	532
Capital stock and participation certificates retired	(328)	--	(328)
Balance at June 30, 2013	$ 8,056	$ 637,964	$ 646,020
Balance at December 31, 2013	$ 8,151	$ 677,398	$ 685,549
Net income	**--**	**36,313**	**36,313**
Unallocated surplus designated for patronage distributions	**--**	**(4,996)**	**(4,996)**
Capital stock and participation certificates issued	**372**	**--**	**372**
Capital stock and participation certificates retired	**(278)**	**--**	**(278)**
Balance at June 30, 2014	**$ 8,245**	**$ 708,715**	**$ 716,960**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ended December 31, 2014. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report for the year ended December 31, 2013 (2013 Annual Report).

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

Recently Issued or Adopted Accounting Pronouncements

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

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**June 30, 2014**		December 31, 2013	
	Amount	%	Amount	%
Real estate mortgage	**$ 1,986,912**	**60.5%**	$ 1,917,174	59.3%
Production and intermediate term	**818,560**	**25.0%**	872,465	27.0%
Agribusiness	**287,494**	**8.8%**	260,812	8.1%
Other	**185,324**	**5.7%**	182,001	5.6%
Total	**$ 3,278,290**	**100.0%**	$ 3,232,452	100.0%

The other category is comprised of communication, rural residence, and energy related loans as well as loans originated under our mission related investment authority.

Delinquency

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

	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 or More Past Due and Accruing
As of June 30, 2014						
Real estate mortgage	**$ 9,435**	**$ 2,179**	**$ 11,614**	**$ 1,987,823**	**$ 1,999,437**	**$ 735**
Production and intermediate term	**5,334**	**1,790**	**7,124**	**817,025**	**824,149**	**1,028**
Agribusiness	**--**	**--**	**--**	**287,830**	**287,830**	**--**
Other	**556**	**1,163**	**1,719**	**184,089**	**185,808**	**200**
Total	**$ 15,325**	**$ 5,132**	**$ 20,457**	**$ 3,276,767**	**$ 3,297,224**	**$ 1,963**
As of December 31, 2013						
Real estate mortgage	$ 6,035	$ 2,886	$ 8,921	$ 1,917,839	$ 1,926,760	$ 890
Production and intermediate term	3,046	549	3,595	875,300	878,895	138
Agribusiness	--	1	1	261,150	261,151	1
Other	1,635	53	1,688	180,904	182,592	--
Total	$ 10,716	$ 3,489	$ 14,205	$ 3,235,193	$ 3,249,398	$ 1,029

Risk Loans

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

As of:	June 30 2014	December 31 2013
Volume with specific reserves	**$ 1,410**	$ 184
Volume without specific reserves	**10,764**	9,907
Total risk loans	**$ 12,174**	$ 10,091
Total specific reserves	**$ 637**	$ 147
For the six months ended June 30	**2014**	2013
Income on accrual risk loans	**$ 37**	$ 156
Income on nonaccrual loans	**365**	183
Total income on risk loans	**$ 402**	$ 339
Average risk loans	**$ 11,298**	$ 17,321

The increase in risk loans was primarily due to the increase in nonaccrual loans. The increase in nonaccrual loans was due to a transfer of a loan initiated under our Mission Related Investment authority to nonaccrual status during the first half of 2014.

Troubled Debt Restructurings

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. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding troubled debt restructurings that occurred during the six months ended June 30 (in thousands):

	2014		2013	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ 175**	**$ 175**	$ --	$ --
Production and intermediate term	**7**	**7**	--	--
Total	**$ 182**	**$ 182**	$ --	$ --

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.

There were no troubled debt restructurings that defaulted during the six months ended June 30, 2014 or 2013 in which the modification was within twelve months of the respective reporting period.

The following table presents information regarding troubled debt restructurings outstanding (in thousands):

As of:	June 30 2014	December 31 2013
Troubled debt restructurings in accrual status	**$ 4**	$ 4
Troubled debt restructurings in nonaccrual status	**546**	430
Troubled debt restructurings	**$ 550**	$ 434

There were no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at June 30, 2014.

Allowance for Loan Losses

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

Six months ended June 30		**2014**		2013
Balance at beginning of year	**$**	**2,740**	$	4,540
Provision for (reversal of) loan losses		**910**		(414)
Loan recoveries		**45**		105
Loan charge-offs		**(373)**		(280)
Balance at end of period	**$**	**3,322**	$	3,951

The change in the allowance for loan losses reflects the continued improvement in the credit quality of the loan portfolio over the past year as well as pay-downs on certain nonaccrual loans. The increase in the provision for (reversal of) loan losses is related to an increase in specific reserves and an increase in the loans 90 days or more past due.

NOTE 3: INVESTMENT IN AGRIBANK, FCB

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. Previously, the required investment was equal to 2.5%. There was no change in the required investment for growth exceeding the targeted rate.

The balance of our investment in AgriBank, all required stock, was $93.8 million at June 30, 2014 and $101.0 million at December 31, 2013.

NOTE 4: OTHER INVESTMENTS

We hold non-controlling investments in venture capital equity funds of $5.7 million at June 30, 2014 and $4.3 million at December 31, 2013. These investments represent our stake in venture capital equity funds focused on the needs of rural start-up companies. Our $5.0 million commitment to these venture capital equity funds began in 2008 and was initially over a period of ten years. In 2013, we committed an additional $5.0 million over a period of ten additional years. We are a limited partner in the funds and the investments are valued at cost. Our remaining commitment to the funds at June 30, 2014 was $3.5 million over the next ten years and $0.4 million over the next four years under the respective commitments.

The investments were evaluated for impairment. During the year ended December 31, 2013, $385 thousand of impairment was recognized on these investments. No impairments have been recognized on these investments during the six months ended June 30, 2014.

NOTE 5: CONTINGENCIES AND COMMITMENTS

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

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

We hold non-controlling investments in venture capital equity funds. Refer to Note 4 for additional discussion regarding this commitment.

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2013 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2014 or December 31, 2013.

Non-Recurring Basis

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 follows (in thousands):

	As of June 30, 2014				**Six months ended June 30, 2014**
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	**$ --**	**$ 786**	**$ 25**	**$ 811**	**$ (863)**
Other property owned	**--**	**--**	**546**	**546**	**(20)**

	As of December 31, 2013				Six months ended June 30, 2013
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	$ --	$ 27	$ 12	$ 39	$ 144
Other property owned	--	--	1,345	1,345	(936)

Valuation Techniques

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.

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 7, 2014, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.