Badgerland Financial, ACA

Quarterly Report
March 31, 2016

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, 2015 (2015 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:

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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 2015 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

Cool temperatures and wet soil conditions have resulted in field work being slowed in April. Warmer temperatures are expected over the next couple of weeks, however, soils need to both warm up and dry out before significant field work will get underway.

Current cash prices for corn are approximately $3.37/bushel (bu), down from $3.50/bu the first quarter of 2015. Cash prices for soybeans are approximately $9.65/bu, up from $9.05/bu the first quarter of 2015. New crop corn cash prices are estimated at $3.44/bu with new crop soybeans at $9.40/bu. Futures prices for new crop corn are approximately $3.75/bu with soybeans at approximately $10.01/bu. Inventory buildup due to strong yields in 2015 have continued to keep downward pressure on grain prices. Grain producers will be challenged to operate at profitable levels in 2016.

The average class III milk price for the first quarter was $13.75/hundredweight (cwt) which compares to $15.73/cwt for the same quarter last year. Calendar year 2015 averaged $15.80/cwt. Milk futures for the balance of 2016 (May-December) currently average $13.90/cwt. (all milk prices are before premiums). Although dairy producers have seen lower feed costs, the margins for 2015 were down significantly from 2014 and have remained tight during the first quarter of 2016.

Land values remain strong; however, we are beginning to see softening of values in certain areas. With the tight margins in both the grain and dairy sectors expected to continue through 2016, we expect to see more downward pressure on land values as the year progresses. Similar to previous quarters, there continues to be slow improvement in the overall economic conditions throughout the association's territory which should provide for some non-farm employment opportunities.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.8 billion at March 31, 2016, an increase of $39.7 million from December 31, 2015. The increase was primarily due to strong loan demand, particularly in Capital Markets portfolio, offset by the repayment of operating loans. Due to low commodity prices and tighter operating margins, there will likely be an increased demand for operating credit during the second quarter.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2015. Adversely classified loans were 2.3% of the portfolio at March 31, 2016 and December 31, 2015. 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 March 31, 2016, $124.1 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Risk assets are comprised of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

Components of Risk Assets

(dollars in thousands) As of:	**March 31 2016**	December 31 2015
Loans:		
Nonaccrual	**$ 15,310**	$ 17,644
Accruing restructured	**606**	608
Accruing loans 90 days or more past due	**1,131**	711
Total risk loans	**17,047**	18,963
Other property owned	**--**	307
Total risk assets	**$ 17,047**	$ 19,270
Total risk loans as a percentage of total loans	**0.4%**	0.5%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	**53.1%**	47.5%
Total delinquencies as a percentage of total loans	**0.7%**	0.4%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2015 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans is primarily a result of a substantial paydown and partial charge-off of a large participation loan.

The increase in accruing loans 90 days or more past due is primarily due to an increase in delinquent loans in the production and intermediate term category of the loan portfolio. Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

The decrease in other property owned is mainly a result of property of sales.

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

Allowance Coverage Ratios

As of:	**March 31 2016**	December 31 2015
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**71.4%**	65.7%
Total risk loans	**64.1%**	61.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2016.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands) For the three months ended March 31		**2016**		2015
Net income	**$**	**18,676**	$	19,116
Return on average assets		**1.9%**		2.2%
Return on average members' equity		**9.2%**		10.1%

Changes in these ratios 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.

Changes in Significant Components of Net Income

(in thousands) For the three months ended March 31		**2016**		2015		**Increase (decrease) in net income**
Net interest income	**$**	**24,550**	$	23,414	**$**	**1,136**
Provision for (reversal of) loan losses		**335**		(484)		**(819)**
Patronage income		**4,469**		5,036		**(567)**
Other income, net		**4,938**		4,182		**756**
Operating expenses		**15,259**		14,452		**(807)**
Benefit from income taxes		**(313)**		(452)		**(139)**
Net income	**$**	**18,676**	$	19,116	**$**	**(440)**

The following table quantifies changes in net interest income for the three months ended March 31, 2016 compared to the same period in 2015.

Changes in Net Interest Income

(in thousands)		**2016 vs 2015**
Changes in volume	**$**	**2,507**
Changes in interest rates		**(1,377)**
Changes in nonaccrual income and other		**6**
Net change	**$**	**1,136**

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

The change in patronage income was primarily related to decreased patronage received from AgriBank and a decrease in patronage income received on loans in the AgriBank Asset Pool Program due to lower patronage rates compared to the prior year.

The increase in other income, net is primarily the result of increased revenue in our Financially Related Services business segments as well as a recognized gain on the sale of owned real estate.

The change in operating expenses was primarily related to increased salaries and benefits expenses and Farm Credit System Insurance Corporation (FCSIC) expense increasing in 2016 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 13 basis points in 2015 to 16 basis points for the first half and 18 basis points for the second half of 2016.The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

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, 2016, 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. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

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 March 31, 2016 or December 31, 2015.

Total members’ equity increased $15.2 million from December 31, 2015 primarily due to net income for the period, which was partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a certain level for our permanent capital ratio, total surplus ratio, and core surplus ratio. Refer to Note 7 in our 2015 Annual Report for a more complete description of these ratios.

Select Capital Ratios

As of	Regulatory Minimums	**March 31 2016**	December 31 2015
Permanent capital ratio	7.0%	**16.6%**	16.6%
Total surplus ratio	7.0%	**16.4%**	16.4%
Core surplus ratio	3.5%	**16.4%**	16.4%

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.

REGULATORY MATTERS

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the rule are to:

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

The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule.

The effective date of the new capital requirements is January 1, 2017. We are currently evaluating the impact of the recently announced changes.

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 to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers
- Comply with the requirements of section 939A of the Dodd-Frank Act
- Modernize the investment eligibility criteria for System Banks
- 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.

CERTIFICATION

The undersigned have reviewed the March 31, 2016 Quarterly Report of Badgerland Financial, ACA, which 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

Mark Cade
Chairperson of the Board
Badgerland Financial, ACA

Diane M Cole

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory Rufsvold

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

May 5, 2016

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

As of:		March 31 2016		December 31 2015
ASSETS				
Loans	**$**	**3,815,872**	$	3,776,123
Allowance for loan losses		**10,926**		11,600
Net loans		**3,804,946**		3,764,523
Investment in AgriBank, FCB		**102,369**		101,777
Accrued interest receivable		**20,440**		20,197
Other property owned		**--**		307
Other investments		**7,938**		7,938
Other assets		**43,362**		46,362
Total assets	**$**	**3,979,055**	$	3,941,104
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**3,095,442**	$	3,090,800
Accrued interest payable		**12,322**		11,391
Deferred tax liabilities, net		**200**		513
Patronage distribution payable		**3,500**		13,500
Other liabilities		**43,982**		16,450
Total liabilities		**3,155,446**		3,132,654
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**8,503**		8,527
Unallocated surplus		**815,106**		799,923
Total members' equity		**823,609**		808,450
Total liabilities and members' equity	**$**	**3,979,055**	$	3,941,104

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended	
For the period ended March 31	**2016**	2015
Interest income	**$ 36,872**	$ 33,089
Interest expense	**12,322**	9,675
Net interest income	**24,550**	23,414
Provision for (reversal of) loan losses	**335**	(484)
Net interest income after provision for loan losses	**24,215**	23,898
Other income		
Patronage income	**4,469**	5,036
Financially related services income	**3,459**	3,075
Fee income	**1,208**	1,120
Miscellaneous income (loss), net	**271**	(13)
Total other income	**9,407**	9,218
Operating expenses		
Salaries and employee benefits	**9,075**	8,723
Other operating expenses	**6,184**	5,729
Total operating expenses	**15,259**	14,452
Income before income taxes	**18,363**	18,664
Benefit from income taxes	**(313)**	(452)
Net income	**$ 18,676**	$ 19,116

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, 2014	$ 8,345	$ 738,615	$ 746,960
Net income	--	19,116	19,116
Unallocated surplus designated for patronage distributions	--	(3,371)	(3,371)
Capital stock and participation certificates issued	165	--	165
Capital stock and participation certificates retired	(154)	--	(154)
Balance at March 31, 2015	$ 8,356	$ 754,360	$ 762,716
Balance at December 31, 2015	$ 8,527	$ 799,923	$ 808,450
Net income	**--**	**18,676**	**18,676**
Unallocated surplus designated for patronage distributions	**--**	**(3,493)**	**(3,493)**
Capital stock and participation certificates issued	**143**	**--**	**143**
Capital stock and participation certificates retired	**(167)**	**--**	**(167)**
Balance at March 31, 2016	**$ 8,503**	**$ 815,106**	**$ 823,609**

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 three months ended March 31, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016. 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, 2015 (2015 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 are currently evaluating the impact of accounting standards that have been issued, but are not yet effective on our Consolidated Financial Statements. Refer to Note 2 in our 2015 Annual Report for additional information.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	March 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,160,945**	**56.6%**	$ 2,114,613	55.9%
Production and intermediate term	**873,122**	**22.9%**	908,557	24.1%
Agribusiness	**507,047**	**13.3%**	485,616	12.9%
Other	**274,758**	**7.2%**	267,337	7.1%
Total	**$ 3,815,872**	**100.0%**	$ 3,776,123	100.0%

The other category is primarily comprised of communication, international, energy, rural residential, and real estate loans.

Delinquency

Aging Analysis of Loans

(in thousands)

As of March 31, 2016	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	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 7,229**	**$ 3,683**	**$ 10,912**	**$ 2,162,098**	**$ 2,173,010**	**$ --**
Production and intermediate term	**11,444**	**3,471**	**14,915**	**864,725**	**879,640**	**756**
Agribusiness	**483**	**--**	**483**	**507,585**	**508,068**	**--**
Other	**76**	**375**	**451**	**275,143**	**275,594**	**375**
Total	**$ 19,232**	**$ 7,529**	**$ 26,761**	**$ 3,809,551**	**$ 3,836,312**	**$ 1,131**

As of December 31, 2015	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	90 Days or More Past Due and Accruing
Real estate mortgage	$ 4,079	$ 3,015	$ 7,094	$ 2,118,464	$ 2,125,558	$ 688
Production and intermediate term	1,532	2,774	4,306	911,380	915,686	23
Agribusiness	--	3,802	3,802	483,112	486,914	--
Other	77	--	77	268,085	268,162	--
Total	$ 5,688	$ 9,591	$ 15,279	$ 3,781,041	$ 3,796,320	$ 711

Note: Accruing loans include accrued interest receivable.

Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands) As of:	**March 31 2016**	December 31 2015
Volume with specific reserves	**$ 1,992**	$ 6,566
Volume without specific reserves	**15,055**	12,397
Total risk loans	**$ 17,047**	$ 18,963
Total specific reserves	**$ 1,237**	$ 1,985
For the three months ended March 31	**2016**	2015
Income on accrual risk loans	**$ 23**	$ 20
Income on nonaccrual loans	**236**	230
Total income on risk loans	**$ 259**	$ 250
Average risk loans	**$ 17,184**	$ 13,089

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at March 31, 2016.

Troubled Debt Restructurings (TDRs)

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 TDRs 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.

There were no TDRs completed during the three months ended March 31, 2016. We completed TDRs of certain production and intermediate term loans during the three months ended March 31, 2015. Our recorded investment in these loans just prior to restructuring was $430 thousand and immediately following the restructuring was $420 thousand during the three months ended March 31, 2015. 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 type of modification during the first quarter of 2015 was extension of maturity.

We had TDRs in the production and intermediate term loan category of $33 thousand and $12 thousand that defaulted during the three months ended March 31, 2016 and 2015, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	March 31 2016	December 31 2015
Accrual status:		
Real estate mortgage	**$ 245**	$ 246
Production and intermediate term	**361**	362
Other	**--**	--
Total TDRs in accrual status	**$ 606**	$ 608
Nonaccrual status:		
Real estate mortgage	**$ 268**	$ 277
Production and intermediate term	**218**	244
Other	**--**	4,368
Total TDRs in nonaccrual status	**$ 486**	$ 4,889
Total TDRs status:		
Real estate mortgage	**$ 513**	$ 523
Production and intermediate term	**579**	606
Other	**--**	4,368
Total TDRs	**$ 1,092**	$ 5,497

The decrease in nonaccrual loans is primarily a result of a substantial paydown and partial charge-off of a large participation loan.

There were no additional commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2016.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Three months ended March 31	2016	2015
Balance at beginning of period	**$ 11,600**	$ 9,378
Provision for loan losses	**335**	(484)
Loan recoveries	**41**	689
Loan charge-offs	**(1,050)**	(8)
Balance at end of period	**$ 10,926**	$ 9,575

NOTE 3: OTHER INVESTMENTS

We hold non-controlling investments in venture capital equity funds of $7.9 million at both March 31, 2016 and at December 31, 2015. 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 these investments are valued at cost. Our remaining commitment to the funds at March 31, 2016 was $1.8 million through December 2018.

The investments were evaluated for impairment. No impairments have been recognized on these investments during the three months ended March 31, 2016 or 2015. We did not receive any distributions during the three months ended March 31, 2016 or 2015. During the year ended December 31, 2015, we received $237 thousand in distributions from the funds.

NOTE 4: MEMBERS’ EQUITY

Regulatory Capitalization Requirements

On March 10, 2016, the FCA Board approved a final rule to modify the regulatory capital requirements for System Banks and Associations. The final rule replaces existing core surplus and total surplus requirements with common equity tier 1, tier 1 and total capital risk-based capital ratio requirements. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. The effective date of the new capital requirements is January 1, 2017.

FCA Revised Capital Requirements

	Regulatory Minimums	Capital Conservation Buffer	Total
Risk adjusted:			
Common equity Tier 1 ratio	4.5%	2.5%	7.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%
Total capital ratio	8.0%	2.5%	10.5%
Non-risk adjusted:			
Tier 1 leverage ratio	4.0%	1.0%	5.0%

If capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

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 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 3 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 Note 2 in our 2015 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 March 31, 2016 or December 31, 2015.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	**As of March 31, 2016**				**Three months ended March 31, 2016**
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	**$ --**	**$ 728**	**$ 64**	**$ 792**	**$ (302)**
Other property owned	**--**	**--**	**--**	**--**	**(41)**
	As of December 31, 2015				Three months ended March 31, 2015
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	$ --	$ 4,721	$ 89	$ 4,810	$ (38)
Other property owned	--	--	319	319	(171)

Valuation Techniques

Impaired 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. If the process uses independent appraisals and other market-based information, they are classified as Level 2. 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, they are classified as Level 3.

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. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 5, 2016, 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.