Badgerland Financial, ACA

Quarterly Report
September 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position 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 2012 Annual Report for the year ended December 31, 2012.

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 e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are 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 2012 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

A late spring due to cool, wet conditions was followed by a period of generally good growing conditions with adequate heat units. Conditions then turned very dry in many parts of our territory which will have some impact on both corn and soybean yields, especially the northern areas. Harvest for grain is getting underway. Parts of our territory are showing some very good yields on corn and overall yields are expected to be above average. Soybean yields will likely be average as this crop will be impacted more by the dry weather that was seen throughout most of our territory during the month of August. Third and fourth crop alfalfa as well as pasture conditions were also adversely impacted by the long stretch of dry weather. Most of our territory has seen rainfall over the past several weeks. The moisture came too late to have much impact on the corn and soybean yields, but will help later cuttings of alfalfa, improve pasture conditions, and start to replenish subsoil moisture.

There has been a large amount of silage being chopped due to the late spring and then the very dry weather which limited the development of the corn crop for grain. Overall feed supplies should be adequate for most livestock producers with significant silage in inventory. The cost of corn and soybeans has come down considerably and will help the livestock producers; however, alfalfa prices will likely remain high due to tight supplies resulting from a shifting of some alfalfa to grain crops as well as significant winterkill of alfalfa in some parts of our territory.

Many producers carry prevent plant insurance which will help offset some losses for producers that were not able to plant all of their acreage this spring due to wet conditions. Grain producers will be facing lower commodity prices this fall. Current cash prices for corn have dropped considerably as harvest approached. Last quarter, the cash price for corn was $6.75/bu and soybeans around $15.25/bu. As of the end of the third quarter, cash prices for old crop and new crop corn and soybeans have dropped under $4.10/bu for corn and soybeans are about $12.35/bu. As of the November publication date of this report, current cash prices for corn are averaging $3.98/bu and soybeans are averaging $12.30/bu. Recent reports of higher than expected carryover inventory from the 2012 crop along with expectations for record or near record corn and soybean harvest across the United States has resulted in a significant drop in grain prices. Tighter profit margins are likely for grain producers as we go into 2014.

The average class III milk price for the third quarter was $17.81/cwt which compares to $17.80/cwt for the same quarter last year. Calendar year 2012 averaged $17.44/cwt. The first nine months of 2013 has averaged $17.76/cwt with the milk futures for the balance of 2013 (November-Dec) currently averaging $18.35/cwt. All milk prices are before premiums. Although milk prices have remained relatively strong compared to historical averages, higher feed costs have reduced margins. The outlook for 2014 milk prices is mixed. Lower feed prices should improve margins if prices remain stable, however, the lower feed costs may also drive increased production. Without increasing demand, this could lead to downward pressure on milk prices. The current Chicago Board of Trade 2014 futures prices (January – December) are averaging $16.98/cwt.

The lack of a new farm bill continues to create uncertainty for most commodity groups. A potential change to crop insurance programs also creates some uncertainty. There continues to be some improvement in the values of recreational properties which had shown several years of softening values. Historically strong commodity prices as well as low interest rates have resulted in significant increases in cropland values the past several years. Recent increases in interest rates as well as the potential for a strong grain harvest and a resulting drop in grain prices will likely slow the rate of land value increases and may even result in a softening of current land values in some areas. Overall economic conditions throughout our territory continue to show some modest improvement which should provide for some non-farm employment opportunities.

Loan Portfolio

Loans totaled $3.1 billion at September 30, 2013, a $226.0 million increase from December 31, 2012.

Accrual mortgage loan volume has increased $244.1 million since December 31, 2012. This increase is primarily due to marketing results on our retail portfolio along with a substantial amount of activity in our capital markets segment. We had a new business promotion period for mortgage loans in the fall of 2012 with the impact showing up in 2013. Another marketing promotion during the second quarter of 2013 also resulted in additional new business. Lastly, there continues to be carryover impact from a very busy second half of 2012 in the capital markets area.

Partially offsetting this growth in September 2013, we added an additional $42.5 million of loan assets to the AgriBank Asset Pool Program. We were also required to purchase additional AgriBank stock as a result of this transaction in order to maintain the required investment equal to 8.0% of the loans we have sold under this program.

Accrual commercial loan volume has decreased $14.4 million since December 31, 2012. In spite of the 2012 drought, overall farm earnings were strong. Higher commodity prices along with crop insurance proceeds have resulted in a significant pay-down of commercial loans in the first, second, and third quarters of 2013. Although there has been steady new business activity, pay-downs from profits and crop insurance proceeds have offset the new loan activity. In addition, an increasing amount of equipment financing is being completed through the AgDirect trade credit financing program. Although we benefit from the income generated on loans booked through AgDirect, these loans are not reflected as loan volume on our Consolidated Statements of Condition.

Portfolio Credit Quality

The credit quality of our portfolio has remained stable from December 31, 2012. Adversely classified loans decreased slightly to 2.0% of the portfolio at September 30, 2013, from 2.4% of the portfolio at December 31, 2012. 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 September 30, 2013, $94.6 million of our loans were, to some level, guaranteed under these governmental programs.

Risk Assets

The following table summarizes risk information (dollars in thousands):

As of:	**September 30 2013**	December 31 2012
Loans:		
Nonaccrual	**$ 9,304**	$ 13,066
Accruing restructured	**225**	233
Accruing loans 90 days or more past due	**4,966**	7,299
Total risk loans	**14,495**	20,598
Other property owned	**798**	3,664
Total risk assets	**$ 15,293**	$ 24,262
Risk loans as a percentage of total loans	**0.5%**	0.7%
Total delinquencies as a percentage of total loans	**0.7%**	0.8%

Our risk assets have decreased from December 31, 2012 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 was primarily due to the acquisition of collateral and transfer to other property owned related to a loan in the ethanol industry. The property was subsequently sold in June 2013. Refer to the description of changes in other property owned below for additional detail. Nonaccrual loans remained at an acceptable level at September 30, 2013 and represented 0.3% of our total portfolio. At September 30, 2013, 64.7% of our nonaccrual loans were current.

The decrease in accruing loans 90 days or more past due was primarily due to principal payments during the nine months ended September 30, 2013 sufficient to bring the loans to current status partially offset by increased delinquencies in the dairy industry with sufficient collateral to maintain accrual status. Our accounting policy generally requires loans past due 90 days to be transferred into nonaccrual status. 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 primarily related to net disposals of $2.0 million during the nine months ended September 30, 2013. During January 2013, we acquired the collateral of a nonaccrual loan in the ethanol industry. The appraised fair value of the property was greater than the recorded investment in the loan and, therefore, we recognized a write-up of the property of $840 thousand during the three months ended March 31, 2013. During the three months ended June 30, 2013 the property was sold resulting in a loss of $1.7 million on the property. Our exposure to this industry is limited with less than 2% of our outstanding loan portfolio in the ethanol industry as of September 30, 2013.

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:	**September 30 2013**	December 31 2012
Loans	**0.1%**	0.2%
Nonaccrual loans	**29.9%**	34.7%
Total risk loans	**19.2%**	22.0%

The allowance for loan losses decreased as of September 30, 2013 compared to December 31, 2012. However, the allowance for loan losses as a percentage of nonaccrual loans and risk loans has decreased slightly due to the significant decline in nonaccrual loans and risk loans during the nine months ended September 30, 2013 as well as stable credit quality compared to December 31, 2012. Refer to the Risk Assets section above for additional information regarding the changes in nonaccrual loans. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2013.

Results of Operations

Net income for the nine months ended September 30, 2013 totaled $59.1 million compared to $61.4 million for the same period in 2012. The following table illustrates profitability information:

As of September 30	**2013**	2012
Return on average assets	**2.5%**	2.9%
Return on average members' equity	**12.3%**	14.2%

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

For the nine months ended September 30	**2013**	2012	**Increase (decrease) in net income**
Net interest income	**$ 67,263**	$ 64,559	**$ 2,704**
(Reversal of) provision for loan losses	**(1,572)**	(1,049)	**523**
Patronage income	**14,920**	13,675	**1,245**
Other income	**10,800**	13,284	**(2,484)**
Operating expenses	**35,633**	31,374	**(4,259)**
Provision for income taxes	**(185)**	(227)	**(42)**
Net income	**$ 59,107**	$ 61,420	**$ (2,313)**

Net interest income was $67.3 million for the nine months ended September 30, 2013. The following table quantifies changes in net interest income for the nine months ended September 30, 2013 compared to the same period in 2012 (in thousands):

	2013 vs 2012
Changes in volume	**$ 6,724**
Changes in rates	**(3,605)**
Changes in nonaccrual income and other	**(415)**
Net change	**$ 2,704**

The change in the provision 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 and a large acquisition of collateral positively affecting nonaccrual balances.

The change in patronage income was primarily related to a larger participation in the asset pool program compared to the participation during the first nine months of 2012 as well as an increase in our note payable coupled with a higher patronage rate compared to the prior year. In addition, 2013 patronage income on the asset pool was partially offset due to the share of distributions from Allocated Insurance Reserve Accounts (AIRA) totaling $452 thousand related to the share of participations sold to AgriBank during 2012. 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 above the required 2% of insured debt. There has been no distribution in 2013. Lastly, patronage income was also impacted by the increased partnership distributions from our participation in the AgDirect trade credit financing program.

The change in other income was primarily due to our share of non-recurring distributions from AIRA of $2.7 million in 2012 partially offset by increased financially related services income.

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.

The change in provision for income taxes was primarily related to lower income in our taxable entity primarily attributable to decreased net income in the commercial loan portfolio.

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.

Funding, Liquidity, and Capital

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our promissory note matured on August 31, 2013 and was renewed for $3.3 billion with a maturity date of August 31, 2014. 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.

Cost of funds associated with our note payable includes a marginal cost of debt component and a spread component, which includes cost of servicing, cost of liquidity, and bank profit. Additionally, a risk premium may also be included in our cost of funds; however, we were not subject to a risk premium at September 30, 2013 or December 31, 2012.

Total members' equity increased $52.2 million from December 31, 2012 primarily due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7.0%, 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 2012 Annual Report for a more complete description of these ratios. As of September 30, 2013, the ratios were as follows:

- The permanent capital ratio was 15.7%.
- The total surplus ratio was 15.5%.
- The core surplus ratio was 15.5%.

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.

Certification

The undersigned certify they have reviewed Badgerland Financial, ACA's September 30, 2013 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.

Michael Winker
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

November 7, 2013

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	September 30 2013	December 31 2012
ASSETS		
Loans	**$ 3,081,873**	$ 2,855,906
Allowance for loan losses	**2,782**	4,540
Net loans	**3,079,091**	2,851,366
Investment in AgriBank, FCB	**99,208**	94,045
Accrued interest receivable	**22,042**	13,925
Premises and equipment, net	**13,058**	12,609
Other property owned	**798**	3,664
Equity investment	**4,035**	3,235
Other assets	**27,572**	26,313
Total assets	**$ 3,245,804**	$ 3,005,157
LIABILITIES		
Note payable to AgriBank, FCB	**$ 2,531,588**	$ 2,357,428
Accrued interest payable	**7,868**	7,127
Deferred tax liabilities, net	**1,880**	2,421
Patronage distribution payable	**7,163**	9,000
Other liabilities	**28,940**	13,033
Total liabilities	**2,577,439**	2,389,009
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Capital stock and participation certificates	**8,126**	7,852
Unallocated surplus	**660,239**	608,296
Total members' equity	**668,365**	616,148
Total liabilities and members' equity	**$ 3,245,804**	$ 3,005,157

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		Nine Months Ended	
For the period ended September 30	**2013**	2012	**2013**	2012
Interest income	**$ 31,304**	$ 29,234	**$ 89,697**	$ 87,185
Interest expense	**7,868**	7,075	**22,434**	22,626
Net interest income	**23,436**	22,159	**67,263**	64,559
(Reversal of) provision for loan losses	**(1,158)**	576	**(1,572)**	(1,049)
Net interest income after provision for (reversal of) loan losses	**24,594**	21,583	**68,835**	65,608
Other income				
Patronage income	**4,985**	4,847	**14,920**	13,675
Financially related services income	**5,557**	5,118	**9,763**	9,209
Fee income	**627**	781	**1,843**	2,014
Allocated insurance reserve accounts distribution	**--**	--	**--**	2,746
Miscellaneous income (loss), net	**9**	(875)	**(806)**	(685)
Total other income	**11,178**	9,871	**25,720**	26,959
Operating expenses				
Salaries and employee benefits	**7,233**	6,715	**22,368**	20,091
Other operating expenses	**4,228**	3,486	**13,265**	11,283
Total operating expenses	**11,461**	10,201	**35,633**	31,374
Income before income taxes	**24,311**	21,253	**58,922**	61,193
Benefit from income taxes	**(352)**	(1,595)	**(185)**	(227)
Net income	**$ 24,663**	$ 22,848	**$ 59,107**	$ 61,420

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, 2011	$ 7,548	$ 540,884	$ 548,432
Net income	--	61,420	61,420
Unallocated surplus designated for patronage distributions	--	(10,814)	(10,814)
Capital stock and participation certificates issued	678	--	678
Capital stock and participation certificates retired	(472)	--	(472)
Balance at September 30, 2012	$ 7,754	$ 591,490	$ 599,244
Balance at December 31, 2012	$ 7,852	$ 608,296	$ 616,148
Net income	**--**	**59,107**	**59,107**
Unallocated surplus designated for patronage distributions	**--**	**(7,164)**	**(7,164)**
Capital stock and participation certificates issued	**759**	**--**	**759**
Capital stock and participation certificates retired	**(485)**	**--**	**(485)**
Balance at September 30, 2013	**$ 8,126**	**$ 660,239**	**$ 668,365**

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 nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013. 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 2012 Annual Report for the year ended December 31, 2012.

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:	**September 30, 2013**			December 31, 2012		
		Amount	%		Amount	%
Real estate mortgage	**$**	**1,809,371**	**58.8%**	$	1,602,004	56.1%
Production and intermediate term		**866,465**	**28.1%**		837,245	29.3%
Agribusiness		**217,249**	**7.0%**		253,984	8.9%
Other		**188,788**	**6.1%**		162,673	5.7%
Total	**$**	**3,081,873**	**100.0%**	$	2,855,906	100.0%

The other category is comprised of communications, energy, rural residential real estate 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 September 30, 2013						
Real estate mortgage	**$ 9,942**	**$ 2,312**	**$ 12,254**	**$ 1,810,266**	**$ 1,822,520**	**$ 1,253**
Production and intermediate term	**3,058**	**4,057**	**7,115**	**867,306**	**874,421**	**3,713**
Agribusiness	**--**	**--**	**--**	**217,669**	**217,669**	**--**
Other	**628**	**1,412**	**2,040**	**187,265**	**189,305**	**--**
Total	**$ 13,628**	**$ 7,781**	**$ 21,409**	**$ 3,082,506**	**$ 3,103,915**	**$ 4,966**
As of December 31, 2012						
Real estate mortgage	$ 8,143	$ 2,799	$ 10,942	$ 1,598,729	$ 1,609,671	$ 1,549
Production and intermediate term	2,079	6,051	8,130	834,590	842,720	5,276
Agribusiness	3,107	2,493	5,600	248,706	254,306	--
Other	273	1,886	2,159	160,975	163,134	474
Total	$ 13,602	$ 13,229	$ 26,831	$ 2,843,000	$ 2,869,831	$ 7,299

Risk Loans

The following table presents risk loan information (in thousands):

As of:	September 30 2013	December 31 2012
Volume with specific reserves	**$ 1,553**	$ 2,716
Volume without specific reserves	**12,942**	17,882
Total risk loans	**$ 14,495**	$ 20,598
Total specific reserves	**$ 516**	$ 1,876

For the nine months ended September 30	2013	2012
Income on accrual risk loans	**$ 212**	$ 54
Income on nonaccrual loans	**769**	1,185
Total income on risk loans	**$ 981**	$ 1,239
Average risk loans	**$ 16,196**	$ 18,118

The decrease in risk loans was primarily related to a decline in nonaccrual loans due to the acquisition of collateral and transfer to other property owned related to a loan in the ethanol industry which was subsequently sold in June 2013. Additionally, there has been a decline in accruing loans 90 days or more past due as a result of principal payments during the nine months ended September 30, 2013 sufficient to bring the loans to current status partially offset by increased delinquencies in the dairy industry with sufficient collateral to maintain accrual status.

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. 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 formally restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding the recorded investment for troubled debt restructurings that occurred during the nine months ended September 30 (in thousands):

	2013		2012	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$ 205	$ 205
Production and intermediate term	**--**	**--**	519	429
Total	**$ --**	**$ --**	$ 724	$ 634

Pre-modification represents the recorded investment just prior to restructuring and post-modification represents the recorded investment immediately following the restructuring. The recorded investment 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 of the investment.

We had troubled debt restructurings in the production and intermediate term loans of $220 thousand and $193 thousand that defaulted during the nine months ended September 30, 2013 and 2012 in which the modifications were within twelve months of the respective reporting period.

Troubled debt restructurings outstanding at September 30, 2013 totaled $657 thousand, of which $432 thousand were in nonaccrual status compared to $861 thousand at December 31, 2012 of which $628 thousand were in nonaccrual status. The decline in troubled debt restructurings was primarily related to payments and loan charge-offs during the nine months ended September 30, 2013. There were no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at September 30, 2013.

Allowance for Loan Losses

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

Nine months ended September 30	2013	2012
Balance at beginning of year	**$ 4,540**	$ 6,621
(Reversal of) provision for loan losses	**(1,572)**	(1,049)
Loan recoveries	**107**	252
Loan charge-offs	**(293)**	(254)
Balance at end of period	**$ 2,782**	$ 5,570

The change in provision 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.

NOTE 3: Equity Investment

We held a non-controlling equity investment in a venture capital equity fund of $4.0 million at September 30, 2013 and $3.2 million at December 31, 2012. This investment represents our stake in a venture capital equity fund focused on the needs of rural start-up companies. Our commitment to this venture capital equity investment began in 2008 and is over a period of ten years. We are a limited partner in the fund and the equity investment is valued at cost. Our remaining commitment to the fund at September 30, 2013 was $1.0 million.

The investment was evaluated for impairment. To date, there have been no adverse events or operational losses regarding the fund and, therefore, no impairments have been recognized on this equity investment. We have not received any distributions from the fund as of September 30, 2013.

NOTE 4: Contingencies and Commitments

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

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

NOTE 5: 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. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2012 Annual Report for a more complete description of the three input levels.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2013 or December 31, 2012. 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):

	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
As of September 30, 2013					
Loans	**$ --**	**$ 1,073**	**$ 15**	**$ 1,088**	**$ 1,067**
Other property owned	**--**	**--**	**830**	**830**	**(941)**
As of December 31, 2012					
Loans	$ --	$ 881	$ --	$ 881	$ 1,515
Other property owned	--	--	3,811	3,811	(951)

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.

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.

NOTE 6: Subsequent Events

We have evaluated subsequent events through November 7, 2013, 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.