



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, 2014 (2014 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 2014 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

Conditions for spring planting were good. Crops were planted in a timely manner. First crop hay was made with very little rain damage or delays. The harvest of second crop saw a period of more moisture which held up harvest in some areas. Overall crop conditions are good. Adequate moisture and heat units have resulted in a very good looking corn and soybean crop in most parts of our territory. Current cash prices for corn have increased slightly from the first quarter 2015 and are approximately \$3.50/bushel (bu). Cash prices for soybeans are basically unchanged from the first quarter and are approximately \$9.30/bu. Current futures prices for December corn are \$3.80/bu and November soybeans are at \$9.43/bu. Overall, much tighter margins in the grain crops are expected for 2015 which will require producers to manage input costs where possible, and take advantage of pricing opportunities.

Class III milk price for the second quarter was \$16.24/Hundred Weight (cwt). Although an increase from the first quarter, this compares to \$22.75/cwt for the second quarter of 2014. Calendar year 2014 averaged \$22.34/cwt. Milk futures for the second half of 2015 currently average \$16.40/cwt. (all milk prices are before premiums). Dairy producers have seen lower feed costs in 2015 which has helped offset some of the large drop in milk prices. Many dairies are still profitable at the current prices; however, cash flows are much tighter than the record high prices in 2014. Land prices have remained relatively strong to-date; however, some softening of prices is expected due to the much tighter margins being experienced by both cash grain and dairy operations.

LOAN PORTFOLIO

Loan Portfolio

Total loans were \$3.5 billion at June 30, 2015, an increase of \$79.3 million from December 31, 2014. The increase was primarily due to accrual mortgage loan volume increasing \$70.2 million (2.7%) since 2014 year end. Year-to-date growth has been very modest so far. The association launched a new business marketing campaign several months ago which focuses on competitive longer term fixed rates. Past marketing campaigns have been very successful and the association expects to see some mortgage loan growth increase over the next few months as new loans are booked. Loan participation purchases continue, however, lead lenders are increasing their hold limits on stronger credits which have created challenges in increasing our outstanding loan balances on the loan participation portfolio. Much of the loan participation portfolios are booked as mortgage loans.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2014. Adversely classified loans were 2.2% of the portfolio at June 30, 2015 and December 31, 2014. 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, 2015, \$96.9 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 2015	December 31 2014
Loans:		
Nonaccrual	\$ 20,107	\$ 11,532
Accruing restructured	702	56
Accruing loans 90 days or more past due	1,728	249
Total risk loans	22,537	11,837
Other property owned	22	782
Total risk assets	\$ 22,559	\$ 12,619
Total risk loans as a percentage of total loans	0.6%	0.3%
Nonaccrual loans as a percentage of total loans	0.6%	0.3%
Total delinquencies as a percentage of total loans	0.7%	0.5%

Our risk assets have increased from December 31, 2014, 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 primarily to several loans within our portion of the ProPartners Financial alliance portfolio moving to nonaccrual as well as the transfer of a large participation loan to nonaccrual. Nonaccrual loans remained at an acceptable level at June 30, 2015 and 59.5% of our nonaccrual loans were current.

The increase in accruing restructured loans was primarily due to a transfer of a production and intermediate term loan in the amount of \$410 thousand to accruing restructured status during the first quarter of 2015 and a transfer of a real estate mortgage loan of \$249 thousand to accruing restructured status during the second quarter of 2015.

The increase in accruing loans 90 days or more past due was primarily due to an increase in delinquent loans in the production and intermediate term category and due to several loans within our portion of the ProPartners Financial alliance portfolio becoming past due for 90 days or more. 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 due to disposals during the six months ended June 30, 2015.

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.

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

As of:	June 30 2015	December 31 2014
Allowance as a percentage of:		
Loans	0.3%	0.3%
Nonaccrual loans	56.5%	81.3%
Total risk loans	50.4%	79.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2015. The change in ratios is due to the increase in nonaccrual loans as noted in Risk Assets discussed above whereas the allowance has remained stable.

RESULTS OF OPERATIONS

The following table presents profitability information (dollars in thousands):

For the six months ended June 30	2015	2014
Net income	\$ 34,822	\$ 36,313
Return on average assets	1.9%	2.1%
Return on average members' equity	9.1%	10.3%

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.

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

For the six months ended June 30	2015	2014	Increase (decrease) in net income
Net interest income	\$ 46,691	\$ 46,441	\$ 250
Provision for loan losses	1,307	910	(397)
Patronage income	9,927	10,771	(844)
Other income, net	7,298	6,699	599
Operating expenses	28,325	26,945	(1,380)
Benefit from income taxes	(538)	(257)	281
Net income	<u>\$ 34,822</u>	<u>\$ 36,313</u>	<u>\$ (1,491)</u>

The following table quantifies changes in net interest income for the six months ended June 30, 2015 compared to the same period in 2014 (in thousands):

	2015 vs 2014
Changes in volume	\$ 2,341
Changes in interest rates	(1,987)
Changes in nonaccrual income and other	(104)
Net change	<u>\$ 250</u>

The change in the (reversal of) provision for 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 decreased patronage received from AgriBank due to a lower patronage rate compared to the prior year and a decrease in patronage income received from the AgDirect trade credit financing program as a result of lower than anticipated loan volume.

The change in operating expenses was primarily related to increased salaries and benefits expenses resulting from new staff positions and the Farm Credit System Insurance Corporation (FCSIC) expense increasing in 2015 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 12 basis points in 2014 to 13 basis points in 2015.

The change in benefit from income taxes was primarily related to the decrease in pre-tax income of the ACA and an increase in our anticipated patronage payout to members for 2015.

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, 2015, 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 the Association is 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 June 30, 2015 or December 31, 2014.

Total members' equity increased \$28.2 million from December 31, 2014 primarily due to net income for the period 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 7 in our 2014 Annual Report for a more complete description of these ratios. As of June 30, 2015, the ratios were as follows:

- The permanent capital ratio was 16.9%.
- The total surplus ratio was 16.7%.
- The core surplus ratio was 16.7%.

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 May 8, 2014, the FCA Board approved a proposed rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,

- To 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,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

On June 15, 2015, the FCA Board voted to reopen the public comment period from June 26 through July 10, 2015. The initial comment period on the proposed rule, after extension, closed February 16, 2015.

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 as follows:

- To strengthen the safety and soundness of System Banks and Associations,
- To ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System Banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System Banks, and
- To revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk.

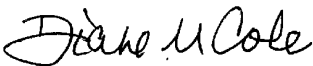
The public comment period ended on October 23, 2014.

CERTIFICATION

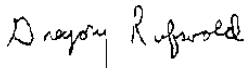
The undersigned certify they have reviewed Badgerland Financial, ACA's June 30, 2015 Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete 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 6, 2015

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA

(in thousands)

(Unaudited)

As of:	June 30 2015	December 31 2014
ASSETS		
Loans	\$ 3,494,290	\$ 3,414,943
Allowance for loan losses	11,358	9,378
Net loans	3,482,932	3,405,565
Investment in AgriBank, FCB	95,857	96,807
Accrued interest receivable	20,641	18,636
Other property owned	22	782
Other investments	7,275	6,725
Other assets	43,235	45,961
Total assets	\$ 3,649,962	\$ 3,574,476
LIABILITIES		
Note payable to AgriBank, FCB	\$ 2,829,128	\$ 2,787,000
Accrued interest payable	10,280	9,480
Deferred tax liabilities, net	514	1,053
Patronage distribution payable	6,750	13,000
Other liabilities	28,174	16,983
Total liabilities	2,874,846	2,827,516
Contingencies and commitments	--	--
MEMBERS' EQUITY		
Capital stock and participation certificates	8,425	8,345
Unallocated surplus	766,691	738,615
Total members' equity	775,116	746,960
Total liabilities and members' equity	\$ 3,649,962	\$ 3,574,476

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		Six Months Ended	
	2015	2014	2015	2014
Interest income	\$ 33,559	\$ 32,156	\$ 66,648	\$ 64,220
Interest expense	10,282	9,034	19,957	17,779
Net interest income	23,277	23,122	46,691	46,441
Provision for loan losses	1,791	726	1,307	910
Net interest income after provision for loan losses	21,486	22,396	45,384	45,531
Other income				
Patronage income	4,891	5,207	9,927	10,771
Financially related services income	1,938	1,476	5,013	4,379
Fee income	1,124	1,200	2,244	2,253
Miscellaneous income, net	54	37	41	67
Total other income	8,007	7,920	17,225	17,470
Operating expenses				
Salaries and employee benefits	8,773	8,651	17,496	17,205
Other operating expenses	5,100	4,708	10,829	9,740
Total operating expenses	13,873	13,359	28,325	26,945
Income before income taxes	15,620	16,957	34,284	36,056
Benefit from income taxes	(86)	(435)	(538)	(257)
Net income	\$ 15,706	\$ 17,392	\$ 34,822	\$ 36,313

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, 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
Balance at December 31, 2014	\$	8,345	\$	738,615	\$	746,960
Net income		--		34,822		34,822
Unallocated surplus designated for patronage distributions		--		(6,746)		(6,746)
Capital stock and participation certificates issued		381		--		381
Capital stock and participation certificates retired		(301)		--		(301)
Balance at June 30, 2015	\$	8,425	\$	766,691	\$	775,116

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, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. 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, 2014 (2014 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.

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

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, 2015		December 31, 2014	
	Amount	%	Amount	%
Real estate mortgage	\$ 2,171,172	62.1%	\$ 2,054,506	60.2%
Production and intermediate term	857,061	24.5%	864,969	25.3%
Agribusiness	292,252	8.4%	307,623	9.0%
Other	173,805	5.0%	187,845	5.5%
Total	\$ 3,494,290	100.0%	\$ 3,414,943	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):

As of June 30, 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		90 Days or More Past Due and Accruing	
	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Total	Total		
Real estate mortgage	\$ 10,602	\$ 2,714	\$ 13,316	\$ 2,171,621	\$ 2,184,937	\$ 699				
Production and intermediate term	7,088	4,790	11,878	851,264	863,142	1,029				
Agribusiness	25	--	25	292,521	292,546	--				
Other	454	204	658	173,648	174,306	--				
Total	\$ 18,169	\$ 7,708	\$ 25,877	\$ 3,489,054	\$ 3,514,931	\$ 1,728				

As of December 31, 2014	30-89 Days Past Due		90 Days or More Past Due		Total Past Due		Not Past Due or Less than 30 Days Past Due		90 Days or More Past Due and Accruing	
	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Total	Total		
Real estate mortgage	\$ 9,835	\$ 2,155	\$ 11,990	\$ 2,053,421	\$ 2,065,411	\$ 142				
Production and intermediate term	4,757	590	5,347	866,156	871,503	107				
Agribusiness	--	--	--	308,271	308,271	--				
Other	151	655	806	187,588	188,394	--				
Total	\$ 14,743	\$ 3,400	\$ 18,143	\$ 3,415,436	\$ 3,433,579	\$ 249				

Risk Loans

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

As of:	June 30	December 31
	2015	2014
Volume with specific reserves	\$ 10,075	\$ 2,519
Volume without specific reserves	12,462	9,318
Total risk loans	\$ 22,537	\$ 11,837
Total specific reserves	\$ 2,391	\$ 874
For the six months ended June 30	2015	2014
Income on accrual risk loans	\$ 47	\$ 37
Income on nonaccrual loans	261	365
Total income on risk loans	\$ 308	\$ 402
Average risk loans	\$ 15,432	\$ 11,298

The increase in risk loans is due primarily to the increase in nonaccrual loans, increase in accruing restructured loans, and increase in accruing loans 90 days or more past due. The increase in nonaccrual loans was primarily due to several loans within our portion of the ProPartners Financial alliance portfolio moving to nonaccrual as well as the transfer of a large participation loan to nonaccrual. The increase in accruing restructured loans was primarily due to a transfer of a production and intermediate term loan in the amount of \$410 thousand to accruing restructured status during the first quarter of 2015 and a transfer of a Real Estate Mortgage loan of \$249 thousand to accruing restructured status during the second quarter of 2015. The increase in accruing loans 90 days or more past due was primarily due to an increase in delinquent loans in the production and intermediate term category and due to several loans within our portion of the ProPartners Financial alliance portfolio becoming past due for 90 days or more.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at June 30, 2015.

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.

The following table presents information regarding TDRs that occurred during the six months ended June 30 (in thousands)

	2015		2014	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	\$ 4,936	\$ 4,751	\$ 175	\$ 175
Production and intermediate term	559	485	7	7
Total	\$ 5,495	\$ 5,236	\$ 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.

The primary types of modification included deferral of principal, extension of maturity, and interest rate reduction below market.

We had TDRs in the production and intermediate term loan category of \$12 thousand that defaulted during the six months ended June 30, 2015, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the six months ended June 30, 2014, in which the modification was within twelve months of the respective reporting period.

The following table presents information regarding TDRs outstanding (in thousands):

As of:	June 30 2015	December 31 2014
Accrual status:		
Real estate mortgage	\$ 249	\$ --
Production and intermediate term	453	56
Total TDRs in accrual status	\$ 702	\$ 56
Nonaccrual status:		
Real estate mortgage	\$ 4,796	\$ 313
Production and intermediate term	217	191
Total TDRs in nonaccrual status	\$ 5,013	\$ 504
Total TDRs	\$ 5,715	\$ 560

The increase in nonaccrual status was primarily due to the large participation loan transferred to nonaccrual and placed in TDR status. The increase in accrual status loans was primarily due to the restructure of a production and intermediate term loan in the amount of \$410 thousand to accruing restructured status during the first quarter of 2015 and a transfer of a Real Estate Mortgage loan of \$249 thousand to accruing restructured status during the second quarter of 2015.

Additional commitments to lend to borrowers whose loans have been modified in a TDR were \$4 thousand at June 30, 2015.

Allowance for Loan Losses

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

Six months ended June 30	2015	2014
Balance at beginning of year	\$ 9,378	\$ 2,740
Provision for loan losses	1,307	910
Loan recoveries	697	45
Loan charge-offs	(24)	(373)
Balance at end of period	\$ 11,358	\$ 3,322

The increase in allowance for loan losses was related to recoveries on loans charged off in a prior period, partially offset by the reversal of provision expense recorded in the first quarter 2015 related to changes in loan volume and loss estimates in the portfolio. In addition, a reserve was established at the end of 2014 based on a loan portfolio analysis conducted to determine the impact of declining commodity prices. To date, the reserve totals \$5.7 million. We will continue to monitor commodity prices and input costs to determine if future allowance adjustments are warranted.

NOTE 3: OTHER INVESTMENTS

We hold non-controlling investments in venture capital equity funds of \$7.3 million at June 30, 2015, and \$6.7 million at December 31, 2014, respectively. 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 June 30, 2015 was \$2.5 million over the next nine years.

The investments were evaluated for impairment. No impairments have been recognized on these investments during the six months ended June 30, 2015 and 2014. To date, we have not received any distributions from the funds.

NOTE 4: 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 3 for additional discussion regarding this commitment.

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. 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 2014 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, 2015 or December 31, 2014.

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, 2015				Six months ended June 30, 2015	
	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)	
	Level 1	Level 2	Level 3			
Impaired loans	\$ --	\$ 7,965	\$ 103	\$ 8,068	\$ (1,541)	
Other property owned	--	--	23	23	(171)	
	As of December 31, 2014				Six months ended June 30, 2014	
	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)	
	Level 1	Level 2	Level 3			
Impaired loans	\$ --	\$ 1,703	\$ 24	\$ 1,727	\$ (863)	
Other property owned	--	--	813	813	(20)	

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 fall under 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 fall under 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.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 6, 2015 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.