Badgerland Financial, ACA

Quarterly Report
March 31, 2015

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

Cold conditions resulted in very little field work being done the first couple weeks of April. More seasonal temperatures are now being realized. A lack of moisture during the winter and early spring had raised concerns about going into spring planting with low moisture levels; however, recent rainfall has taken place. The rainfall has been both significant and widespread. Once soils dry out, spring planting will resume. Current cash prices for corn are approximately $3.34/bushel (bu), down from $4.65/bu the first quarter of 2014. Cash prices for soybeans are approximately $9.27/bu, down from $14.50/bu the first quarter of 2014. New crop corn cash prices are estimated at $3.54/bu with new crop soybeans at $9.03/bu. Futures prices for new crop corn are approximately $3.66/bu with soybeans at approximately $9.67/bu. The strong grain production in 2014 along with a normal harvest for 2015 will continue to keep pressure on grain prices. Grain producers will be challenged to operate at profitable levels in 2015.

The average class III milk price for the first quarter was $15.73/Hundred Weight (cwt) which compares to $22.61/cwt for the same quarter last year. Calendar year 2014 averaged $22.34/cwt. Milk futures for the balance of 2015 (May-December) currently average $17.20/cwt (all milk prices are before premiums). Although dairy producers have seen lower feed costs, the margins for 2015 have deteriorated rapidly. Many dairy producers had very strong earnings in 2014 and significant prepayment of input costs was done to reduce tax liabilities. This will help offset some of the effect of lower milk prices for part of the year. However, if milk prices do not rebound, cash flows may show significant stress later in 2015. Although land prices have remained strong so far, the reduction in earnings in both the cash grain and dairy enterprises will likely result in some softening of land values in 2015. Similar to previous quarters, there continues to be some slow improvement in the overall economic conditions throughout our association's territory which should provide for some non-farm employment opportunities.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.4 billion at March 31, 2015, a decrease of $8.6 million from December 31, 2014. The decrease was primarily due to accrual commercial loan volume decreasing by $20.0 million (2.6%) since 2014 year end, which was partially offset by accrual mortgage loan volume increasing by $10.6 million (0.4%) since 2014 year end**.** Year-to-date growth has been very modest so far, however, the association has recently launched a new business marketing campaign which focuses on competitive longer term fixed rates. Previous marketing campaigns have been very successful and the association expects to see mortgage loan growth increase over the next few months. Much of the reduction of accrual commercial loan volume can be attributed to the pay down of operating loans. In some cases, dairy producers utilized operating loans to prepay expenses before year end in addition to deferring several milk checks into 2015. As the deferred milk income was received, operating loans tend to get paid down. The reduction in milk prices in 2015 along with continued low grain prices will likely result in the need for additional operating credit in 2015.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2014. Adversely classified loans increased slightly to 2.3% of the portfolio at March 31, 2015, from 2.2% of the portfolio at 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 March 31, 2015, $99.3 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:	**March 31 2015**	December 31 2014
Loans:		
Nonaccrual	**$ 12,335**	$ 11,532
Accruing restructured	**444**	56
Accruing loans 90 days or more past due	**972**	249
Total risk loans	**13,751**	11,837
Other property owned	**382**	782
Total risk assets	**$ 14,133**	$ 12,619
Risk loans as a percentage of total loans	**0.4%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.3%
Total delinquencies as a percentage of total loans	**0.8%**	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 primarily due to nonaccrual transfers related to two large farm operations and transfers related to our ProPartners portfolio. Nonaccrual loans remained at an acceptable level at March 31, 2015 and 48.7% 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.

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. 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 first quarter 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:	**March 31 2015**	December 31 2014
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**77.6%**	81.3%
Total risk loans	**69.6%**	79.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2015.

RESULTS OF OPERATIONS

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

For the three months ended March 31	**2015**	2014
Net income	**$ 19,116**	$ 18,921
Return on average assets	**2.2%**	2.2%
Return on average members' equity	**10.1%**	10.9%

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 three months ended March 31	2015	2014	Increase (decrease) in net income
Net interest income	**$ 23,414**	$ 23,319	**$ 95**
(Reversal of) provision for loan losses	**(484)**	184	**668**
Patronage income	**5,036**	5,564	**(528)**
Other income, net	**4,182**	3,986	**196**
Operating expenses	**14,452**	13,586	**(866)**
(Benefit from) provision for income taxes	**(452)**	178	**630**
Net income	**$ 19,116**	$ 18,921	**$ 195**

The following table quantifies changes in net interest income for the three months ended March 31, 2015 compared to the same period in 2014 (in thousands):

	2015 vs 2014
Changes in volume	**$ 1,090**
Changes in interest rates	**(975)**
Changes in nonaccrual income and other	**(20)**
Net change	**$ 95**

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.

The change in (benefit from) provision for income taxes was primarily related to the decrease in pre-tax income of the ACA and an increase in anticipated patronage payout 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 March 31, 2015 or December 31, 2014.

Total members' equity increased $15.8 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 March 31, 2015, the ratios were as follows:

- The permanent capital ratio was 16.7%.
- The total surplus ratio was 16.5%.
- The core surplus ratio was 16.5%.

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.

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.

The public comment period ended on 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 March 31, 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

May 7, 2015

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

As of:	**March 31 2015**	December 31 2014
ASSETS		
Loans	**$ 3,406,366**	$ 3,414,943
Allowance for loan losses	**9,575**	9,378
Net loans	**3,396,791**	3,405,565
Investment in AgriBank, FCB	**95,907**	96,807
Accrued interest receivable	**18,692**	18,636
Other property owned	**382**	782
Other investments	**6,725**	6,725
Other assets	**42,937**	45,961
Total assets	**$ 3,561,434**	$ 3,574,476
LIABILITIES		
Note payable to AgriBank, FCB	**$ 2,751,586**	$ 2,787,000
Accrued interest payable	**9,673**	9,480
Deferred tax liabilities, net	**576**	1,053
Patronage distribution payable	**3,375**	13,000
Other liabilities	**33,508**	16,983
Total liabilities	**2,798,718**	2,827,516
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Capital stock and participation certificates	**8,356**	8,345
Unallocated surplus	**754,360**	738,615
Total members' equity	**762,716**	746,960
Total liabilities and members' equity	**$ 3,561,434**	$ 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 three months ended March 31	**2015**	2014
Interest income	**$ 33,089**	$ 32,064
Interest expense	**9,675**	8,745
Net interest income	**23,414**	23,319
(Reversal of) provision for loan losses	**(484)**	184
Net interest income after (reversal of) provision for loan losses	**23,898**	23,135
Other income		
Patronage income	**5,036**	5,564
Financially related services income	**3,075**	2,903
Fee income	**1,120**	1,053
Miscellaneous (loss) income, net	**(13)**	30
Total other income	**9,218**	9,550
Operating expenses		
Salaries and employee benefits	**8,723**	8,554
Other operating expenses	**5,729**	5,032
Total operating expenses	**14,452**	13,586
Income before income taxes	**18,664**	19,099
(Benefit from) provision for income taxes	**(452)**	178
Net income	**$ 19,116**	$ 18,921

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		--		18,921		18,921
Unallocated surplus designated for patronage distributions		--		(2,496)		(2,496)
Capital stock and participation certificates issued		158		--		158
Capital stock and participation certificates retired		(140)		--		(140)
Balance at March 31, 2014	$	8,169	$	693,823	$	701,992
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**

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, 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:	**March 31, 2015**		December 31, 2014	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,091,838**	**61.3%**	$ 2,054,506	60.2%
Production and intermediate term	**815,914**	**24.0%**	864,969	25.3%
Agribusiness	**315,226**	**9.3%**	307,623	9.0%
Other	**183,388**	**5.4%**	187,845	5.5%
Total	**$ 3,406,366**	**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 March 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	**$ 8,225**	**$ 2,783**	**$ 11,008**	**$ 2,092,924**	**$ 2,103,932**	**$ 763**
Production and intermediate term	**14,230**	**1,214**	**15,444**	**806,265**	**821,709**	**209**
Agribusiness	**39**	**--**	**39**	**315,546**	**315,585**	**--**
Other	**150**	**200**	**350**	**183,482**	**183,832**	**--**
Total	**$ 22,644**	**$ 4,197**	**$ 26,841**	**$ 3,398,217**	**$ 3,425,058**	**$ 972**

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	Total	90 Days or More Past Due and Accruing
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:		March 31 2015		December 31 2014
Volume with specific reserves	$	**2,655**	$	2,519
Volume without specific reserves		**11,096**		9,318
Total risk loans	$	**13,751**	$	11,837
Total specific reserves	$	**904**	$	874
For the three months ended March 31		**2015**		2014
Income on accrual risk loans	$	**20**	$	18
Income on nonaccrual loans		**230**		251
Total income on risk loans	$	**250**	$	269
Average risk loans	$	**13,089**	$	11,103

The increase in risk loans is due primarily to the increase in nonaccrual loans as well as the increase in accruing loans that are 90 days or more past due. The increase in nonaccrual loans is due to nonaccrual transfers on two large farm operations and transfers related to our ProPartners portfolio. The increase in accruing loans greater than 90 days past due is attributable to an increase in delinquencies in the production and intermediate term loan portfolios.

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

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 during the three months ended March 31, 2015. Our recorded investment in these loans 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. There were no TDRs completed during the three months ended March 31, 2014.

The primary 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 $12 thousand that defaulted during the three months ended March 31, 2015, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the three months ended March 31, 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:		March 31 2015		December 31 2014
Accrual status:				
Real estate mortgage	$	**--**	$	--
Production and intermediate term		**444**		56
Total TDRs in accrual status	$	**444**	$	56
Nonaccrual status:				
Real estate mortgage	$	**305**	$	313
Production and intermediate term		**177**		191
Total TDRs in nonaccrual status	$	**482**	$	504
Total TDRs	$	**926**	$	560

There were no additional commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2015.

Allowance for Loan Losses

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

Three months ended March 31	**2015**	2014
Balance at beginning of year	**$ 9,378**	$ 2,740
(Reversal of) provision for loan losses	**(484)**	184
Loan recoveries	**689**	7
Loan charge-offs	**(8)**	(72)
Balance at end of period	**$ 9,575**	$ 2,859

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 $5.3 million general allowance reserve was established at the end of 2014 based on a loan portfolio analysis conducted to determine the impact of declining commodity prices. 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 $6.7 million at March 31, 2015, and December 31, 2014. 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, 2015 was $2.8 million over the next nine years and $91 thousand over the next four years under the respective commitments.

The investments were evaluated for impairment. No impairments have been recognized on these investments during the three months ended March 31, 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 March 31, 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 March 31, 2015				**Three months ended March 31, 2015**
	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Impaired loans	**$ --**	**$ 1,829**	**$ 10**	**$ 1,839**	**$ (38)**
Other property owned	**--**	**--**	**397**	**397**	**(171)**

	As of December 31, 2014				Three months ended March 31, 2014
	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
Impaired loans	$ --	$ 1,703	$ 24	$ 1,727	$ (218)
Other property owned	--	--	813	813	(15)

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 May 7, 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.