Badgerland Financial, ACA

Quarterly Report
June 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Badgerland Financial, ACA (the parent) and Badgerland Financial, FLCA and Badgerland Financial, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2015 (2015 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Badgerland Financial, ACA. To request free copies of the AgriBank and combined AgriBank and affiliated Associations' financial reports or additional copies of our report, contact us at:

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NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

Potential Merger

We are committed to the success of agriculture, rural communities and most importantly, our member-owners. Every day, we partner with our members to deliver the insights and expert guidance they've come to expect and count on from their financial services provider. To be that trusted advisor, we're consistently looking for ways to better serve our members and return value to our stockholders. It's a business objective we've been committed to for the long haul and one we believe matches the strides of our members – constantly evolving and growing to better our operation.

The Boards of Directors of Badgerland Financial, ACA, 1st Farm Credit Services, ACA, and AgStar Financial Services, ACA are in the process of due diligence to evaluate a potential merger among the three associations. 1st Farm Credit Services, ACA, serves the Northern 42 counties of Illinois. AgStar Financial Services, ACA, serves 69 counties across Minnesota and Wisconsin.

While our markets may differ in some ways, our philosophies and focus on member relationships and commitment to rural communities and agriculture are closely aligned. Our due diligence evaluation includes the guidance and assistance of staff and industry experts. We expect the process to conclude in the third quarter of this year. If all three Boards of Directors decide to recommend a merger, a number of additional regulatory and procedural steps will be completed before our members will have the opportunity to vote on the proposal in early 2017.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2015 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Although the spring planting season started out with cool temperatures and wet soil conditions, conditions improved significantly and crops were planted timely. Growing conditions throughout most of our territory have been very good. Currently, the corn and soybean crops are rated as some of the best in the nation. Hay crops have generally been very good. Although there are some areas where additional rain would be helpful, most of our territory has received adequate and timely rainfall.

Current cash prices for corn are approximately $2.96/bushel (bu)., down from $3.37/bu the previous quarter. Cash prices for soybeans are approximately $9.51/bu., down from $9.65/bu the previous quarter. Futures prices for new crop corn are approximately $3.00/bu with soybeans at approximately $9.08/bu. December 2016 corn futures had approached $4.50/bu and November 2016 soybean futures had approached $11.60/bu in June but have dropped significantly since then. The current quality of the corn and soybean crop will likely continue to put downward pressure on grain prices.

The average class III milk price for the second quarter was $13.15/hundred weight (cwt) which compares to $16.24/cwt for the same quarter last year. Calendar year 2015 averaged $15.80/cwt. Milk futures for the balance of 2016 (August-December) currently average $16.64/cwt (all milk prices are before premiums). Although the second half of the year may see some higher prices, the very low prices in the first two quarters have placed considerable stress on many dairy operations.

Overall, land values remain strong and values have been stable. We expect future softening of values due to the continued tight margins in both the grain and dairy sectors. Similar to previous quarters, there continues to be some slow improvement in the overall economic conditions throughout the association's territory which should provide for some non-farm employment opportunities.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $3.9 billion at June 30, 2016, an increase of $157.0 million from December 31, 2015. The increase was primarily due to strong loan demand, due to low commodity prices and tighter operating margins.

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2015. Adversely classified loans decreased to 2.1% of the portfolio at June 30, 2016, from 2.3% of the portfolio at December 31, 2015. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2016, $129.1 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

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

Components of Risk Assets

(dollars in thousands) As of:	**June 30 2016**	December 31 2015
Loans:		
Nonaccrual	**$ 16,681**	$ 17,644
Accruing restructured	**609**	608
Accruing loans 90 days or more past due	**2,175**	711
Total risk loans	**19,465**	18,963
Other property owned	**563**	307
Total risk assets	**$ 20,028**	$ 19,270
Total risk loans as a percentage of total loans	**0.5%**	0.5%
Nonaccrual loans as a percentage of total loans	**0.4%**	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	**59.2%**	47.5%
Total delinquencies as a percentage of total loans	**0.6%**	0.4%

Note: Accruing loans include accrued interest receivable.

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

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

The increase in other property owned is the result of additional acquisition of property.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Allowance Coverage Ratios

As of:	June 30 2016	December 31 2015
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**79.1%**	65.7%
Total risk loans	**67.8%**	61.2%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2016.

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the six months ended June 30	2016	2015
Net income	**$ 33,341**	$ 34,822
Return on average assets	**1.7%**	1.9%
Return on average members' equity	**8.1%**	9.1%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

Changes in Significant Components of Net Income

(in thousands)

For the six months ended June 30	2016	2015	Increase (decrease) in net income
Net interest income	**$ 49,143**	$ 46,691	**$ 2,452**
Provision for loan losses	**2,747**	1,307	**(1,440)**
Patronage income	**8,890**	9,927	**(1,037)**
Other income, net	**7,771**	7,298	**473**
Operating expenses	**30,288**	28,325	**(1,963)**
Benefit from income taxes	**(572)**	(538)	**34**
Net income	**$ 33,341**	$ 34,822	**$ (1,481)**

Changes in Net Interest Income

(in thousands)

For the six months ended June 30	2016 vs 2015
Changes in volume	**$ 5,181**
Changes in interest rates	**(2,768)**
Changes in nonaccrual income and other	**39**
Net change	**$ 2,452**

The change in the provision for loan losses was related to changes in loss estimates in our loan portfolio as well as the ProPartners loan portfolio.

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

The change in Other income is primarily a result of increased revenues in Tax & Accounting services offered as well as an increase in loan fees collected related mainly to capital markets.

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

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matures on August 31, 2016 at which time the note will be renegotiated. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, and bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at June 30, 2016 or December 31, 2015.

Total members' equity increased $26.4 million from December 31, 2015 primarily due to net income for the period, which was partially offset by patronage distribution accruals.

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

Select Capital Ratios

As of	Regulatory Minimums	**June 30 2016**	December 31 2015
Permanent capital ratio	7.0%	**16.9%**	16.6%
Total surplus ratio	7.0%	**16.7%**	16.4%
Core surplus ratio	3.5%	**16.7%**	16.4%

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

REGULATORY MATTERS

Regulatory Capital Requirements

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

- Modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise
- Ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System
- Make System regulatory capital requirements more transparent
- Meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act

The final rule replaces existing core surplus and total surplus ratios with common equity tier 1, tier 1 and total capital risk-based capital ratios. The final rule also adds a tier 1 leverage ratio. The permanent capital ratio continues to remain in effect with the final rule. Refer to Note 4 of the accompanying Consolidated Financial Statements for additional information regarding these ratios.

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

Investment Securities Eligibility

On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. The stated objectives of the proposed rule are to:

- Strengthen the safety and soundness of System Banks and Associations
- Ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption
- Enhance the ability of the System Banks to supply credit to agricultural and aquatic producers
- Comply with the requirements of section 939A of the Dodd-Frank Act
- Modernize the investment eligibility criteria for System Banks
- Revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk

The public comment period ended on October 23, 2014.

CERTIFICATION

The undersigned have reviewed the June 30, 2016 Quarterly Report of Badgerland Financial, ACA, which has been prepared under the oversight of the Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Mark W. Cade

Mark Cade
Chairperson of the Board
Badgerland Financial, ACA

Diane M Cole

Diane M. Cole
Chief Executive Officer
Badgerland Financial, ACA

Gregory Rufsvold

Gregory S. Rufsvold
Chief Financial Officer
Badgerland Financial, ACA

August 4, 2016

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

As of:		June 30 2016		December 31 2015
ASSETS				
Loans	**$**	**3,933,121**	$	3,776,123
Allowance for loan losses		**13,200**		11,600
Net loans		**3,919,921**		3,764,523
Investment in AgriBank, FCB		**102,606**		101,777
Accrued interest receivable		**21,678**		20,197
Other property owned		**563**		307
Other investments		**8,289**		7,938
Deferred tax assets, net		**60**		--
Other assets		**43,199**		46,362
Total assets	**$**	**4,096,316**	$	3,941,104
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**3,213,796**	$	3,090,800
Accrued interest payable		**12,794**		11,391
Deferred tax liabilities, net		**--**		513
Patronage distribution payable		**7,000**		13,500
Other liabilities		**27,906**		16,450
Total liabilities		**3,261,496**		3,132,654
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**8,549**		8,527
Unallocated surplus		**826,271**		799,923
Total members' equity		**834,820**		808,450
Total liabilities and members' equity	**$**	**4,096,316**	$	3,941,104

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

CONSOLIDATED STATEMENTS OF INCOME

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2016**	2015	**2016**	2015
Interest income	**$ 37,387**	$ 33,559	**$ 74,259**	$ 66,648
Interest expense	**12,794**	10,282	**25,116**	19,957
Net interest income	**24,593**	23,277	**49,143**	46,691
Provision for loan losses	**2,412**	1,791	**2,747**	1,307
Net interest income after provision for loan losses	**22,181**	21,486	**46,396**	45,384
Other income				
Patronage income	**4,421**	4,891	**8,890**	9,927
Financially related services income	**1,821**	1,938	**5,280**	5,013
Fee income	**1,248**	1,124	**2,456**	2,244
Miscellaneous (loss) income, net	**(236)**	54	**35**	41
Total other income	**7,254**	8,007	**16,661**	17,225
Operating expenses				
Salaries and employee benefits	**9,221**	8,773	**18,296**	17,496
Other operating expenses	**5,808**	5,100	**11,992**	10,829
Total operating expenses	**15,029**	13,873	**30,288**	28,325
Income before income taxes	**14,406**	15,620	**32,769**	34,284
Benefit from income taxes	**(259)**	(86)	**(572)**	(538)
Net income	**$ 14,665**	$ 15,706	**$ 33,341**	$ 34,822

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Badgerland Financial, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2014	$ 8,345	$ 738,615	$ 746,960
Net income	--	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
Balance at December 31, 2015	$ 8,527	$ 799,923	$ 808,450
Net income	**--**	**33,341**	**33,341**
Unallocated surplus designated for patronage distributions	**--**	**(6,993)**	**(6,993)**
Capital stock and participation certificates issued	**348**	**--**	**348**
Capital stock and participation certificates retired	**(326)**	**--**	**(326)**
Balance at June 30, 2016	**$ 8,549**	**$ 826,271**	**$ 834,820**

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 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, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the Consolidated Financial Statements and related notes included in our Annual Report for the year ended December 31, 2015 (2015 Annual Report).

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

Recently Issued or Adopted Accounting Pronouncements

The following accounting standards have been issued during the second quarter of 2016, but are not yet effective.

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. The guidance is effective for nonpublic entities for annual reporting periods beginning after December 15, 2020 and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted as of annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods. We are currently evaluating the impact of the guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.

Refer to Note 2 in our 2015 Annual Report for additional information on other accounting standards that have been issued, but are not yet effective. We are currently evaluating the impact of the guidance on our Consolidated Financial Statements. No accounting pronouncements were adopted during the six months ended June 30, 2016.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	**June 30, 2016**		December 31, 2015	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,142,651**	**54.5%**	$ 2,114,613	55.9%
Production and intermediate term	**1,010,307**	**25.7%**	908,557	24.1%
Agribusiness	**532,504**	**13.5%**	485,616	12.9%
Other	**247,659**	**6.3%**	267,337	7.1%
Total	**$ 3,933,121**	**100.0%**	$ 3,776,123	100.0%

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

Delinquency

Aging Analysis of Loans

(in thousands) **As of June 30, 2016**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$ 10,684**	**$ 2,512**	**$ 13,196**	**$ 2,143,214**	**$ 2,156,410**	**$ 433**
Production and intermediate term	**4,043**	**5,807**	**9,850**	**1,006,954**	**1,016,804**	**1,742**
Agribusiness	**825**	**--**	**825**	**532,829**	**533,654**	**--**
Other	**483**	**--**	**483**	**247,448**	**247,931**	**--**
Total	**$ 16,035**	**$ 8,319**	**$ 24,354**	**$ 3,930,445**	**$ 3,954,799**	**$ 2,175**

As of December 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	$ 4,079	$ 3,015	$ 7,094	$ 2,118,464	$ 2,125,558	$ 688
Production and intermediate term	1,532	2,774	4,306	911,380	915,686	23
Agribusiness	--	3,802	3,802	483,112	486,914	--
Other	77	--	77	268,085	268,162	--
Total	$ 5,688	$ 9,591	$ 15,279	$ 3,781,041	$ 3,796,320	$ 711

Note: Accruing loans include accrued interest receivable.

Risk Loans

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

Risk Loan Information

(in thousands) As of:	**June 30 2016**	December 31 2015
Volume with specific reserves	**$ 3,719**	$ 6,566
Volume without specific reserves	**15,746**	12,397
Total risk loans	**$ 19,465**	$ 18,963
Total specific reserves	**$ 2,935**	$ 1,985
For the six months ended June 30	**2016**	2015
Income on accrual risk loans	**$ 58**	$ 47
Income on nonaccrual loans	**300**	261
Total income on risk loans	**$ 358**	$ 308
Average risk loans	**$ 17,798**	$ 15,432

Note: Accruing loans include accrued interest receivable.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at June 30, 2016.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

TDR Activity

(in thousands) Six months ended June 30	**2016**		2015	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$ 4,936	$ 4,751
Production and intermediate term	**31**	**--**	559	485
Total	**$ 31**	**$ --**	$ 5,495	$ 5,236

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 $18 thousand and $12 thousand that defaulted during the six months ended June 30, 2016 and 2015, respectively in which the modifications were within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of:	June 30 2016	December 31 2015
Accrual status:		
Real estate mortgage	$ 243	$ 246
Production and intermediate term	366	362
Total TDRs in accrual status	$ 609	$ 608
Nonaccrual status:		
Real estate mortgage	$ 258	$ 277
Production and intermediate term	152	244
Other	31	4,368
Total TDRs in nonaccrual status	$ 441	$ 4,889
Total TDRs status:		
Real estate mortgage	$ 501	$ 523
Production and intermediate term	518	606
Other	31	4,368
Total TDRs	$ 1,050	$ 5,497

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

Additional commitments to lend to borrowers whose loans have been modified in a TDR were $9 thousand at June 30, 2016.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Six months ended June 30	2016	2015
Balance at beginning of period	$ 11,600	$ 9,378
Provision for loan losses	2,747	1,307
Loan recoveries	84	697
Loan charge-offs	(1,231)	(24)
Balance at end of period	$ 13,200	$ 11,358

NOTE 3: OTHER INVESTMENTS

We hold non-controlling investments in venture capital equity funds of $8.3 million at June 30, 2016 and $7.9 million at December 31, 2015. These investments represent our stake in venture capital equity funds focused on the needs of rural start-up companies. Our $5.0 million commitment to these venture capital equity funds began in 2008 and was initially over a period of ten years. In 2013, we committed an additional $5.0 million over a period of ten additional years. We are a limited partner in the funds and these investments are valued at cost. Our remaining commitment to the funds at June 30, 2016 was $1.5 million through December 2018.

The investments were evaluated for impairment. No impairments have been recognized on these investments during the six months ended June 30, 2016 or 2015. During the year ended December 31, 2015, we received $237 thousand in distributions from the funds. We did not receive any distributions during the six months ended June 30, 2016.

NOTE 4: MEMBERS’ EQUITY

Regulatory Capitalization Requirements

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

FCA Revised Capital Requirements

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

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

NOTE 5: CONTINGENCIES AND COMMITMENTS

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

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

We hold non-controlling investments in venture capital equity funds. Refer to Note 3 for additional discussion regarding this commitment.

NOTE 6: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2015 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2016 or December 31, 2015.

Non-Recurring Basis

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

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)

	As of June 30, 2016				**Six months ended June 30, 2016**
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$ 657**	**$ 166**	**$ 823**	**$ (2,181)**
Other property owned	**--**	**--**	**586**	**586**	**(38)**

	As of December 31, 2015				Six months ended June 30, 2015
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	$ --	$ 4,721	$ 89	$ 4,810	$ (1,541)
Other property owned	--	--	319	319	(171)

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they are classified as

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

NOTE 7: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 4, 2016, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements. On July 1, 2016 we sold $83.2 million of loan assets to AgriBank under the Asset Pool Program. Additionally, we were 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.