Badgerland Financial, ACA

Quarterly Report
September 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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MERGER ACTIVITY

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 have come to expect and count on from their financial services provider. To be that trusted advisor, we are 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.

In August, the Boards of Directors of Badgerland Financial, ACA, AgStar Financial Services, ACA, and 1st Farm Credit Services, ACA unanimously voted in favor of recommending a merger to our member-owners. With the decision to recommend a merger, a number of additional regulatory and procedural steps still need to be completed before our member-owners have the opportunity to vote on the proposal in early 2017. If approved, the expected merger effective date would be April 1, 2017. A merger application was filed with our regulator, the Farm Credit Administration, in the third quarter.

Badgerland Financial, ACA serves the southern 33 Wisconsin counties. 1st Farm Credit Services, ACA serves the northern 42 counties of Illinois and AgStar Financial Services, ACA serves 69 counties across Minnesota and Wisconsin. While our markets differ in some ways, our philosophies and focus on member relationships and commitment to rural communities and agriculture are closely aligned.

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

Crop conditions were favorable throughout the growing season. The month of September saw heavy precipitation with some areas having significant flooding in low lying areas. Wet weather delayed corn silage harvesting in some areas. Currently, corn and soybean harvesting is underway. The pace of the harvest will depend largely on weather conditions. Strong corn and soybean yields are expected throughout most of the association's territory. Feed supplies are generally adequate for livestock units.

Although limited grain harvesting has taken place as of early October in Wisconsin, there has been good progress in other parts of the grain belt. Strong yields have negatively impacted prices with current cash prices for corn in the $3.00/bushel (bu) to $3.10/bu range depending on basis. Cash prices for soybeans are currently averaging $9.13/bu. New crop cash prices for both corn and soybeans are similar to the above stated prices. December futures prices for new crop corn are approximately $3.48/bu with November futures for soybeans at approximately $9.81/bu. The outlook for a large harvest has put significant downward pressure on grain prices. Producers will likely store more grain at harvest this year with hopes for a price rally. For producers enrolled in the United States Department of Agriculture's Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) programs for the 2015 crop year, the USDA recently announced that there will be over $7 Billion in payments made this fall. This amount is expected to account for over 10% of the USDA's projected 2016 net farm income.

The average class III milk price for the third quarter was $16.17/hundred weight (cwt) which compares to $16.14/cwt for the same quarter last year. This was a significant improvement from the previous quarter which averaged $13.20/cwt. Calendar year 2015 averaged $15.80/cwt. Milk futures for the balance of 2016 (November-December) currently average $16.60/cwt. (all milk prices are before premiums). Although prices have improved over the first half of the year, margins remain tight for many dairy producers.

Overall, land values remain stable. An annual update of benchmark farms showed no change from the previous year; however, softening of land values is expected due to 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 September 30, 2016, an increase of $125.5 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 remained stable from December 31, 2015. Adversely classified loans were 2.3% of the portfolio at September 30, 2016 and December 31, 2015. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At September 30, 2016, $129.8 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:	**September 30 2016**	December 31 2015
Loans:		
Nonaccrual	**$ 19,125**	$ 17,644
Accruing restructured	**619**	608
Accruing loans 90 days or more past due	**1,029**	711
Total risk loans	**20,773**	18,963
Other property owned	**147**	307
Total risk assets	**$ 20,920**	$ 19,270
Total risk loans as a percentage of total loans	**0.5%**	0.5%
Nonaccrual loans as a percentage of total loans	**0.5%**	0.5%
Current nonaccrual loans as a percentage of total nonaccrual loans	**48.8%**	47.5%
Total delinquencies as a percentage of total loans	**0.5%**	0.4%

Note: Accruing loans include accrued interest receivable.

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

Our accounting policy requires accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

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:	September 30 2016	December 31 2015
Allowance as a percentage of:		
Loans	**0.3%**	0.3%
Nonaccrual loans	**65.3%**	65.7%
Total risk loans	**60.1%**	61.2%

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the nine months ended September 30	2016	2015
Net income	**$ 54,695**	$ 55,487
Return on average assets	**1.8%**	2.0%
Return on average members' equity	**8.8%**	9.6%

Changes in the chart above 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 nine months ended September 30	2016	2015	Increase (decrease) in net income
Net interest income	**$ 74,100**	$ 70,773	**$ 3,327**
Provision for loan losses	**2,413**	2,210	**(203)**
Patronage income	**13,382**	14,869	**(1,487)**
Other income, net	**14,081**	13,748	**333**
Operating expenses	**45,132**	42,059	**(3,073)**
(Benefit from) income taxes	**(677)**	(366)	**311**
Net income	**$ 54,695**	$ 55,487	**$ (792)**

Changes in Net Interest Income

(in thousands)

For the nine months ended September 30	2016 vs 2015
Changes in volume	**$ 7,483**
Changes in interest rates	**(4,284)**
Changes in nonaccrual income and other	**128**
Net change	**$ 3,327**

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 a lower patronage rates compared to the prior year.

The change in operating expenses was primarily related to increased salaries and benefits expenses and to the Farm Credit System Insurance Corporation (FCSIC) expense increased in 2016 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 matured on August 31, 2016 and was renewed for $3.9 billion with a maturity date of August 31, 2017. The note payable will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. 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.

Total members' equity increased $44.3 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	**September 30 2016**	December 31 2015
Permanent capital ratio	7.0%	**17.0%**	16.6%
Total surplus ratio	7.0%	**16.8%**	16.4%
Core surplus ratio	3.5%	**16.8%**	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. As discussed in Note 4 of the accompanying Consolidated Financial Statements we will be subject to new regulations and capital requirements effective January 1, 2017.

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. FCA has not issued any further information regarding this proposed rule.

CERTIFICATION

The undersigned have reviewed the September 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

November 4, 2016

CONSOLIDATED STATEMENTS OF CONDITION

Badgerland Financial, ACA
(in thousands)
(Unaudited)

As of:		September 30 2016		December 31 2015
ASSETS				
Loans	**$**	**3,901,637**	$	3,776,123
Allowance for loan losses		**12,493**		11,600
Net loans		**3,889,144**		3,764,523
Investment in AgriBank, FCB		**108,140**		101,777
Accrued interest receivable		**27,500**		20,197
Other property owned		**147**		307
Other investments		**8,289**		7,938
Deferred tax assets, net		**165**		--
Other assets		**45,152**		46,362
Total assets	**$**	**4,078,537**	$	3,941,104
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**3,171,764**	$	3,090,800
Accrued interest payable		**12,931**		11,391
Deferred tax liabilities, net		**--**		513
Patronage distribution payable		**10,500**		13,500
Other liabilities		**30,575**		16,450
Total liabilities		**3,225,770**		3,132,654
Contingencies and commitments (Note 5)				
MEMBERS' EQUITY				
Capital stock and participation certificates		**8,642**		8,527
Allocated surplus		**37,616**		--
Unallocated surplus		**806,509**		799,923
Total members' equity		**852,767**		808,450
Total liabilities and members' equity	**$**	**4,078,537**	$	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		Nine Months Ended	
For the period ended September 30	**2016**	2015	**2016**	2015
Interest income	**$ 37,888**	$ 34,738	**$ 112,147**	$ 101,386
Interest expense	**12,931**	10,656	**38,047**	30,613
Net interest income	**24,957**	24,082	**74,100**	70,773
(Reversal of) provision for loan losses	**(334)**	903	**2,413**	2,210
Net interest income after (reversal of) provision for loan losses	**25,291**	23,179	**71,687**	68,563
Other income				
Patronage income	**4,492**	4,942	**13,382**	14,869
Financially related services income	**5,263**	5,386	**10,543**	10,399
Fee income	**1,199**	1,210	**3,655**	3,454
Miscellaneous (loss), net	**(152)**	(146)	**(117)**	(105)
Total other income	**10,802**	11,392	**27,463**	28,617
Operating expenses				
Salaries and employee benefits	**9,225**	8,867	**27,521**	26,363
Other operating expenses	**5,619**	4,867	**17,611**	15,696
Total operating expenses	**14,844**	13,734	**45,132**	42,059
Income before income taxes	**21,249**	20,837	**54,018**	55,121
(Benefit from) provision for income taxes	**(105)**	172	**(677)**	(366)
Net income	**$ 21,354**	$ 20,665	**$ 54,695**	$ 55,487

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	Allocated Surplus	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2014	$ 8,345	$ --	$ 738,615	$ 746,960
Net income	--	--	55,487	55,487
Unallocated surplus designated for patronage distributions	--	--	(10,121)	(10,121)
Capital stock and participation certificates issued	585	--	--	585
Capital stock and participation certificates retired	(441)	--	--	(441)
Balance at September 30, 2015	$ 8,489	$ --	$ 783,981	$ 792,470
Balance at December 31, 2015	$ 8,527	$ --	$ 799,923	$ 808,450
Net income	**--**	**--**	**54,695**	**54,695**
Net surplus allocated under nonqualified patronage program	**--**	**37,616**	**(37,616)**	**--**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(10,493)**	**(10,493)**
Capital stock and participation certificates issued	**565**	**--**	**--**	**565**
Capital stock and participation certificates retired	**(450)**	**--**	**--**	**(450)**
Balance at September 30, 2016	**$ 8,642**	**$ 37,616**	**$ 806,509**	**$ 852,767**

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 nine months ended September 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 since the issuance of our 2015 Annual Report, 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 nine months ended September 30, 2016.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)

As of:	September 30, 2016		December 31, 2015	
	Amount	%	Amount	%
Real estate mortgage	**$ 2,149,389**	**55.1%**	$ 2,114,613	55.9%
Production and intermediate term	**1,030,699**	**26.4%**	908,557	24.1%
Agribusiness	**498,027**	**12.8%**	485,616	12.9%
Other	**223,522**	**5.7%**	267,337	7.1%
Total	**$ 3,901,637**	**100.0%**	$ 3,776,123	100.0%

The other category is primarily comprised of communication, international, energy, and rural residential loans as well as loans originated under our mission related investment authority.

Delinquency

Aging Analysis of Loans

(in thousands) **As of September 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	**$ 9,535**	**$ 3,264**	**$ 12,799**	**$ 2,153,225**	**$ 2,166,024**	**$ 195**
Production and intermediate term	**3,017**	**5,480**	**8,497**	**1,031,852**	**1,040,349**	**834**
Agribusiness	**--**	**--**	**--**	**498,919**	**498,919**	**--**
Other	**63**	**--**	**63**	**223,782**	**223,845**	**--**
Total	**$ 12,615**	**$ 8,744**	**$ 21,359**	**$ 3,907,778**	**$ 3,929,137**	**$ 1,029**

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:	**September 30 2016**	December 31 2015
Volume with specific reserves	**$ 5,703**	$ 6,566
Volume without specific reserves	**15,070**	12,397
Total risk loans	**$ 20,773**	$ 18,963
Total specific reserves	**$ 2,201**	$ 1,985
For the nine months ended September 30	**2016**	2015
Income on accrual risk loans	**$ 95**	$ 90
Income on nonaccrual loans	**526**	399
Total income on risk loans	**$ 621**	$ 489
Average risk loans	**$ 18,747**	$ 17,655

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 September 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) Nine months ended September 30	**2016**		2015	
	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$ 436	$ 250
Production and intermediate term	**42**	**43**	582	508
Agribusiness	**--**	**--**	4,505	4,505
Total	**$ 42**	**$ 43**	$ 5,523	$ 5,263

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.

TDRs that Subsequently Defaulted within the Previous 12 Months

(in thousands)		2016		2015
Production and intermediate term	$	--	$	12
Agribusiness		--		3,501
Total	$	--	$	3,513

TDRs Outstanding

(in thousands) As of:		September 30 2016		December 31 2015
Accrual status:				
Real estate mortgage	$	241	$	246
Production and intermediate term		378		362
Agribusiness		--		--
Other		--		--
Total TDRs in accrual status	$	619	$	608
Nonaccrual status:				
Real estate mortgage	$	250	$	277
Production and intermediate term		142		244
Agribusiness		--		4,368
Other		29		--
Total TDRs in nonaccrual status	$	421	$	4,889
Total TDRs status:				
Real estate mortgage	$	491	$	523
Production and intermediate term		520		606
Agribusiness		--		4,368
Other		29		--
Total TDRs	$	1,040	$	5,497

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

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at September 30, 2016.

Allowance for Loan Losses

Changes for Allowance for Loan Losses

(in thousands) Nine months ended September 30		2016		2015
Balance at beginning of period	$	11,600	$	9,378
Provision for loan losses		2,413		2,210
Loan recoveries		104		719
Loan charge-offs		(1,624)		(45)
Balance at end of period	$	12,493	$	12,262

NOTE 3: OTHER INVESTMENTS

We hold non-controlling investments in venture capital equity funds of $8.3 million at September 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 September 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 nine months ended September 30, 2016 or 2015. During the year ended December 31, 2015, we received a distribution of $237 thousand as the funds sold investments. We did not receive any distributions during the nine months ended September 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 the 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.

We made nonqualified patronage allocations of $37.6 million during the period ended September 30, 2016. Our nonqualified patronage allocation is based on a determination by the Board of Directors that surplus from 2015 patronage-sourced earnings can be allocated to eligible borrowers while still maintaining the Association's sound capital position. The timing and amounts of all future allocated surplus redemptions is at the discretion of the Board of Directors, subject to compliance with applicable regulatory requirements. These patronage equities have no voting rights and are only transferable if specifically authorized by the Board of Directors.

NOTE 5: CONTINGENCIES AND COMMITMENTS

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

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not 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 September 30, 2016 or December 31, 2015.

Non-Recurring

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 September 30, 2016				Nine months ended September 30, 2016
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$ 3,580**	**$ 97**	**$ 3,677**	**$ (1,840)**
Other property owned	**--**	**--**	**153**	**153**	**(67)**
	As of December 31, 2015				Nine months ended September 30, 2015
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	$ --	$ 4,721	$ 89	$ 4,810	$ (2,327)
Other property owned	--	--	319	319	(92)

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 November 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.