

# **Farm Credit of Western Oklahoma, ACA**



**Quarterly Report  
June 30, 2015**

The shareholders' investment in Farm Credit of Western Oklahoma, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2014 CoBank Annual Report to Shareholders, the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's web site, **[www.cobank.com](http://www.cobank.com)**, or may be obtained at no charge by contacting us at Farm Credit of Western Oklahoma, ACA, 3302 Williams Avenue, Woodward, Oklahoma 73801, or by calling 580-256-3465 or toll free 1-800-299-3465.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the six months ended June 30, 2015, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2014 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Effective October 1, 2014, Farm Credit of Central Oklahoma, ACA was merged into Farm Credit of Western Oklahoma, ACA (merger). The merger successfully united two outstanding organizations that created a company of greater capital, capacity, and human resources to serve agriculture in Oklahoma. For purposes of this management discussion and analysis, unless otherwise noted, reference to "the Association" represents Farm Credit of Western Oklahoma, ACA, from a current, historic and future perspective. Beginning October 1, 2014, our financial position, results of operations, cash flows and related metrics include the effects of the merger with Central Oklahoma. Prior year results have not been restated to reflect the impact of the merger. Upon the closing of the merger, loans increased \$125.0 million, assets increased by \$131.7 million, liabilities increased by \$97.4 million and shareholder's equity increased by \$34.2 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

Since year end 2014 the association territory has experienced a substantial amount of rain which significantly relieved or eliminated lingering drought conditions in the region. The soil moisture profile remains adequate to support summer crops and native grass pasture conditions have improved substantially. Overall cattle numbers remain on the lower end which continues to support demand and strong near term price support. Grain prices remain below the recent past but production expectations in most areas of the territory should offset some of the softening in grain prices.

**LOAN PORTFOLIO**

Loans outstanding at June 30, 2015 totaled \$682.9 million, an increase of \$11.5 million, or 1.71%, from loans of \$671.4 million at December 31, 2014. The increase was primarily due to new mortgage loan volume offset by scheduled repayments and seasonal repayments on commercial operating loans.

**RESULTS OF OPERATIONS**

Net income for the six months ended June 30, 2015 was \$5.3 million, an increase of \$2.1 million, or 65.63%, from the same period ended one year ago primarily due to increased net interest income and non-interest income as a result of the merger that increased loan volume and increased non-interest income proportions compared to the same period one year ago. The increase was partially offset by increased non-interest expense compared to the same period one year ago.

Net interest income for the six months ended June 30, 2015 was \$9.2 million, an increase of \$2.9 million, or 46.03%, compared with June 30, 2014. Net interest income increased primarily as a result of the merger that increased loan volume compared to the same period one year ago.

The provision for credit losses for the six months ended June 30, 2015 was \$75 thousand, compared with a credit loss reversal of \$81 thousand for the same period ended one year ago. The provision for credit losses increased as a result of increased loan volume acquired in the merger and an increased risk profile in certain loans.

Noninterest income increased \$482 thousand during the first six months of 2015 compared with the first six months in 2014 primarily due to increased patronage refunds from CoBank and increased mineral income. The increase is primarily a result of increased proportions due to the merger.

Mineral income of \$403 thousand was recognized during the first six months of 2015. Of this amount, quarterly payments totaling \$371 thousand were received from CoBank.

During the first six months of 2015, noninterest expense increased \$1.1 million to \$5.6 million, primarily due to increases in salary/benefits, purchase services, Farm Credit Insurance Fund premiums and other non-interest expenses. The increases are primarily a result of the merger.

## CAPITAL RESOURCES

Our shareholders' equity at June 30, 2015 was \$133.3 million, an increase from \$128.1 million at December 31, 2014. This increase is due to net income, other comprehensive income and increased capital stock, offset by patronage distributions.

## REGULATORY MATTERS

On May 8, 2014, the Farm Credit Administration approved a proposed rule to modify the regulatory capital requirements for System 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 government-sponsored enterprises;
- 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 certain requirements of the Dodd-Frank Act.

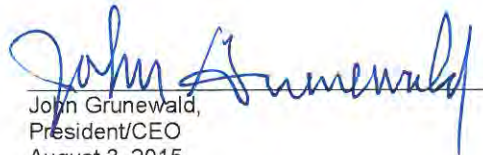
As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity tier 1, tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The proposal would add a minimum tier 1 leverage ratio for all System institutions. In addition, the proposal would establish a capital conservation buffer, and modify and expand risk weightings. The revisions to the risk weightings of exposures would include alternatives to the use of credit ratings, as required by the Dodd-Frank Act. The proposed effective date is January 1, 2016.

The public comment period ended on February 16, 2015. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.



Ronald White  
Chairman of the Board  
August 3, 2015



John Grunewald,  
President/CEO  
August 3, 2015



Jamey B. Mitchell  
Vice President/CFO  
August 3, 2015

## Consolidated Statement of Condition

(Dollars in Thousands)

|   | June 30<br>2015   | December 31<br>2014 |
|---|-------------------|---------------------|
|   | UNAUDITED         | AUDITED             |
| <b>ASSETS</b>                                     |                   |                     |
| Loans   | \$ 682,940        | \$ 671,351          |
| Less allowance for loan losses                    | 2,073             | 2,249               |
| Net loans   | 680,867           | 669,102             |
| Cash  | 2,820             | 5,332               |
| Accrued interest receivable                       | 12,793            | 7,720               |
| Investment in CoBank                              | 19,653            | 19,653              |
| Premises and equipment, net                       | 1,801             | 1,797               |
| Prepaid benefit expense                           | 377               | 580                 |
| Other assets                                      | 2,258             | 3,235               |
| <b>Total assets</b>                               | <b>\$ 720,569</b> | <b>\$ 707,419</b>   |
| <b>LIABILITIES</b>                                |                   |                     |
| Note payable to CoBank                            | \$ 572,810        | \$ 566,065          |
| Advance conditional payments                      | 11,396            | 6,253               |
| Accrued interest payable                          | 1,035             | 2,341               |
| Patronage distributions payable                   | -                 | 2,200               |
| Accrued benefits liability                        | 218               | 220                 |
| Reserve for unfunded commitments                  | 250               | -                   |
| Other liabilities                                 | 1,532             | 2,242               |
| <b>Total liabilities</b>                          | <b>587,241</b>    | <b>579,321</b>      |
| <b>Commitments and Contingencies</b>              |                   |                     |
| <b>SHAREHOLDERS' EQUITY</b>                       |                   |                     |
| Capital stock                                     | 1,977             | 1,966               |
| Additional paid-in capital                        | 33,619            | 33,619              |
| Unallocated retained earnings                     | 97,752            | 92,535              |
| Accumulated other comprehensive (loss)/income     | (20)              | (22)                |
| <b>Total shareholders' equity</b>                 | <b>133,328</b>    | <b>128,098</b>      |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 720,569</b> | <b>\$ 707,419</b>   |

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

## Consolidated Statement of Comprehensive Income

| UNAUDITED  | For the three months<br>ended June 30 |                 | For the six months<br>ended June 30 |                 |
|--|---------------------------------------|-----------------|-------------------------------------|-----------------|
|  | 2015                                  | 2014            | 2015                                | 2014            |
| (Dollars in Thousands)   |                                       |                 |                                     |                 |
| <b>INTEREST INCOME</b>   |                                       |                 |                                     |                 |
| Loans  | \$ 7,321                              | \$ 4,965        | \$ 14,488                           | \$ 9,911        |
| <b>Total interest income</b>   | <b>7,321</b>                          | <b>4,965</b>    | <b>14,488</b>                       | <b>9,911</b>    |
| <b>INTEREST EXPENSE</b>  |                                       |                 |                                     |                 |
| Note payable to CoBank   | 2,663                                 | 1,781           | 5,244                               | 3,548           |
| Other  | 25                                    | 23              | 45                                  | 41              |
| <b>Total interest expense</b>  | <b>2,688</b>                          | <b>1,804</b>    | <b>5,289</b>                        | <b>3,589</b>    |
| Net interest income  | 4,633                                 | 3,161           | 9,199                               | 6,322           |
| (Credit loss reversal)/Provision for credit losses                             | (84)                                  | (9)             | 75                                  | (81)            |
| Net interest income after<br>credit loss reversals/provision for credit losses | 4,717                                 | 3,170           | 9,124                               | 6,403           |
| <b>NONINTEREST INCOME</b>  |                                       |                 |                                     |                 |
| Financially related services income  | 5                                     | 1               | 11                                  | 5               |
| Loan fees  | 4                                     | 4               | 9                                   | 6               |
| Patronage refund from Farm Credit Institutions                                 | 640                                   | 426             | 1,274                               | 861             |
| Mineral income   | 163                                   | 224             | 403                                 | 333             |
| Other noninterest income   | 9                                     | 28              | 57                                  | 67              |
| <b>Total noninterest income</b>  | <b>821</b>                            | <b>683</b>      | <b>1,754</b>                        | <b>1,272</b>    |
| <b>NONINTEREST EXPENSE</b>   |                                       |                 |                                     |                 |
| Salaries and employee benefits   | 1,473                                 | 1,036           | 3,004                               | 2,524           |
| Occupancy and equipment  | 142                                   | 83              | 257                                 | 168             |
| Purchased services from AgVantis, Inc.   | 306                                   | 182             | 606                                 | 359             |
| Farm Credit Insurance Fund premium   | 171                                   | 103             | 342                                 | 208             |
| Merger-implementation costs  | 10                                    | 71              | 12                                  | 77              |
| Supervisory and examination costs  | 54                                    | 40              | 109                                 | 80              |
| Other noninterest expense  | 628                                   | 509             | 1,287                               | 1,086           |
| <b>Total noninterest expense</b>   | <b>2,784</b>                          | <b>2,024</b>    | <b>5,617</b>                        | <b>4,502</b>    |
| <b>Net income</b>  | <b>2,754</b>                          | <b>1,829</b>    | <b>5,261</b>                        | <b>3,173</b>    |
| <b>OTHER COMPREHENSIVE INCOME</b>  |                                       |                 |                                     |                 |
| Amortization of retirement costs   | 1                                     | -               | 2                                   | -               |
| <b>Comprehensive income</b>  | <b>\$ 2,755</b>                       | <b>\$ 1,829</b> | <b>\$ 5,263</b>                     | <b>\$ 3,173</b> |

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

## Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

| UNAUDITED                           | Capital<br>Stock | Additional<br>Paid-In<br>Capital | Unallocated<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Total<br>Shareholders'<br>Equity |
|-------------------------------------|------------------|----------------------------------|-------------------------------------|--|----------------------------------|
| <b>Balance at December 31, 2013</b> | \$ 1,340         | \$ -                             | \$ 87,838                           | \$ -   | \$ 89,178                        |
| Comprehensive income                |                  |                                  | 3,173                               | -  | 3,173                            |
| Stock issued                        | 66               |                                  |                                     |  | 66                               |
| Stock retired                       | (63)             |                                  |                                     |  | (63)                             |
| <b>Balance at June 30, 2014</b>     | \$ 1,343         | \$ -                             | \$ 91,011                           | \$ -   | \$ 92,354                        |
| <b>Balance at December 31, 2014</b> | \$ 1,966         | \$ 33,619                        | \$ 92,535                           | \$ (22)  | \$ 128,098                       |
| Comprehensive income                |                  |                                  | 5,261                               | 2  | 5,263                            |
| Stock issued                        | 107              |                                  |                                     |  | 107                              |
| Stock retired                       | (96)             |                                  |                                     |  | (96)                             |
| Patronage distributions: Cash       |                  |                                  | (44)                                |  | (44)                             |
| <b>Balance at June 30, 2015</b>     | \$ 1,977         | \$ 33,619                        | \$ 97,752                           | \$ (20)  | \$ 133,328                       |

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

**NOTES TO FINANCIAL STATEMENTS**  
(Dollars in Thousands, Except as Noted)  
(Unaudited)

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

A description of the organization and operations of Farm Credit of Western Oklahoma, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2014, are contained in the 2014 Annual Report to Shareholders. These unaudited second quarter 2015 financial statements should be read in conjunction with the 2014 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2014 as contained in the 2014 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2015. Descriptions of the significant accounting policies are included in the 2014 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Presentation of Financial Statements – Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In April 2015, this guidance was deferred by one year and results in the new revenue standard becoming effective for interim and annual reporting periods ending after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

**NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows.

|                                  | June 30, 2015     | December 31, 2014 |
|----------------------------------|-------------------|-------------------|
| Real estate mortgage             | \$ 443,587        | \$ 426,293        |
| Production and intermediate-term | 224,831           | 230,334           |
| Agribusiness:                    |                   |                   |
| Loans to cooperatives            | 4,417             | 2,998             |
| Processing and marketing         | 4,248             | 4,945             |
| Farm-related business            | 1,638             | 1,271             |
| Communication                    | 1,742             | 1,830             |
| Energy                           | 855               | 858               |
| Rural residential real estate    | 1,622             | 2,822             |
| <b>Total loans</b>               | <b>\$ 682,940</b> | <b>\$ 671,351</b> |

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2015:

|                                  | Other Farm Credit Institutions |                  | Non-Farm Credit Institutions |              | Total            |                  |
|----------------------------------|--------------------------------|------------------|------------------------------|--------------|------------------|------------------|
|                                  | Purchased                      | Sold             | Purchased                    | Sold         | Purchased        | Sold             |
| Real estate mortgage             | \$ 29,089                      | \$ 12,599        | \$ 1,874                     | \$ --        | \$ 30,963        | \$ 12,599        |
| Production and intermediate-term | 22,884                         | 3,607            | --                           | --           | 22,884           | 3,607            |
| Agribusiness                     | 6,332                          | --               | --                           | --           | 6,332            | --               |
| Communication                    | 1,815                          | --               | --                           | --           | 1,815            | --               |
| Energy                           | 889                            | --               | --                           | --           | 889              | --               |
| <b>Total</b>                     | <b>\$ 61,009</b>               | <b>\$ 16,206</b> | <b>\$ 1,874</b>              | <b>\$ --</b> | <b>\$ 62,883</b> | <b>\$ 16,206</b> |

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

|                                  | <b>June 30, 2015</b> | December 31, 2014 |
|----------------------------------|----------------------|-------------------|
| Real estate mortgage             |                      |                   |
| Acceptable                       | <b>98.60%</b>        | 99.29%            |
| OAEM                             | <b>1.08%</b>         | 0.48%             |
| Substandard                      | <b>0.32%</b>         | 0.23%             |
| <b>Total</b>                     | <b>100.00%</b>       | 100.00%           |
| Production and intermediate-term |                      |                   |
| Acceptable                       | <b>97.57%</b>        | 99.13%            |
| OAEM                             | <b>2.41%</b>         | 0.85%             |
| Substandard                      | <b>0.02%</b>         | 0.02%             |
| <b>Total</b>                     | <b>100.00%</b>       | 100.00%           |
| Agribusiness                     |                      |                   |
| Acceptable                       | <b>100.00%</b>       | 99.67%            |
| Acceptable                       | --                   | 0.33%             |
| <b>Total</b>                     | <b>100.00%</b>       | 100.00%           |
| Communication                    |                      |                   |
| Acceptable                       | <b>100.00%</b>       | 100.00%           |
| <b>Total</b>                     | <b>100.00%</b>       | 100.00%           |
| Energy                           |                      |                   |
| Acceptable                       | <b>100.00%</b>       | 100.00%           |
| <b>Total</b>                     | <b>100.00%</b>       | 100.00%           |
| Rural residential real estate    |                      |                   |
| Acceptable                       | <b>88.89%</b>        | 93.47%            |
| OAEM                             | <b>11.11%</b>        | 6.53%             |
| <b>Total</b>                     | <b>100.00%</b>       | 100.00%           |
| Total Loans                      |                      |                   |
| Acceptable                       | <b>98.27%</b>        | 99.22%            |
| OAEM                             | <b>1.52%</b>         | 0.63%             |
| Substandard                      | <b>0.21%</b>         | 0.15%             |
| <b>Total</b>                     | <b>100.00%</b>       | 100.00%           |

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

| <i>(dollars in thousands)</i>         | June 30, 2015 | December 31, 2014 |
|---------------------------------------|---------------|-------------------|
| Nonaccrual loans                      |               |                   |
| Real estate mortgage                  | \$ --         | \$ 84             |
| Total nonaccrual loans                | --            | 84                |
| Accruing restructured loans           |               |                   |
| Real estate mortgage                  | 134           | 51                |
| Total accruing restructured loans     | 134           | 51                |
| Accruing loans 90 days past due       |               |                   |
| Production and intermediate-term      | 73            | --                |
| Total accruing loans 90 days past due | 73            | --                |
| Total high risk assets                | \$ 207        | \$ 135            |

Additional impaired loan information is as follows:

|                                  | June 30, 2015       |                          |                   | December 31, 2014   |                          |                   |
|----------------------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|                                  | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| Total impaired loans:            |                     |                          |                   |                     |                          |                   |
| Real estate mortgage             | \$ 134              | \$ 137                   | \$ --             | \$ 135              | \$ 150                   | \$ --             |
| Production and intermediate-term | 73                  | 1,552                    | --                | --                  | 1,480                    | --                |
| Total                            | \$ 207              | \$ 1,689                 | \$ --             | \$ 135              | \$ 1,630                 | \$ --             |

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

|                                  | For the Three Months Ended June 30, 2015 |                            | For the Three Months Ended June 30, 2014 |                            |
|----------------------------------|--|----------------------------|--|----------------------------|
|                                  | Average Impaired Loans                   | Interest Income Recognized | Average Impaired Loans                   | Interest Income Recognized |
| Total impaired loans:            |  |                            |  |                            |
| Real estate mortgage             | \$ 134                                   | \$ 1                       | \$ --                                    | \$ --                      |
| Production and intermediate-term | 24                                       | 1                          | --                                       | --                         |
| Total                            | \$ 158                                   | \$ 2                       | \$ --                                    | \$ --                      |

|  | For the Six Months Ended June 30, 2015 |                            | For the Six Months Ended June 30, 2014 |                            |
|--|--|----------------------------|--|----------------------------|
|  | Average Impaired Loans                 | Interest Income Recognized | Average Impaired Loans                 | Interest Income Recognized |
| Impaired loans with a related allowance for credit losses: |  |                            |  |                            |
| Real estate mortgage                                       | \$ 139                                 | \$ 2                       | \$ --                                  | \$ --                      |
| Production and intermediate-term                           | 12                                     | 1                          | --                                     | --                         |
| Total  | \$ 151                                 | \$ 3                       | \$ --                                  | \$ --                      |

The following tables provide an age analysis of past due loans (including accrued interest).

|  | 30-89<br>Days Past<br>Due | 90 Days<br>or More<br>Past Due | Total Past<br>Due | Not Past<br>Due or less<br>than 30<br>Days Past<br>Due | Recorded<br>Investment<br>in Loans | Recorded<br>Investment<br>Accruing<br>Loans 90<br>Days or<br>More Past<br>Due |
|--|---------------------------|--------------------------------|-------------------|--|------------------------------------|---|
| <b>June 30, 2015</b>                             |                           |                                |                   |  |                                    |   |
| Real estate mortgage                             | \$ 510                    | \$ --                          | \$ 510            | \$ 451,552   | \$ 452,062                         | \$ --   |
| Production and intermediate-term<br>Agribusiness | 1,523                     | 73                             | 1,596             | 227,484  | 229,080                            | 73  |
| Communication                                    | --                        | --                             | --                | 10,362   | 10,362                             | --  |
| Energy   | --                        | --                             | --                | 1,742  | 1,742                              | --  |
| Rural residential real estate                    | --                        | --                             | --                | 857  | 857                                | --  |
|  | --                        | --                             | --                | 1,630  | 1,630                              | --  |
| <b>Total</b>                                     | <b>\$ 2,033</b>           | <b>\$ 73</b>                   | <b>\$ 2,106</b>   | <b>\$ 693,627</b>                                      | <b>\$ 695,733</b>                  | <b>\$ 73</b>  |

|  | 30-89<br>Days Past<br>Due | 90 Days<br>or More<br>Past Due | Total Past<br>Due | Not Past<br>Due or less<br>than 30<br>Days Past<br>Due | Recorded<br>Investment<br>in Loans | Recorded<br>Investment<br>Accruing<br>Loans 90<br>Days or<br>More Past<br>Due |
|--|---------------------------|--------------------------------|-------------------|--|------------------------------------|---|
| <b>December 31, 2014</b>                         |                           |                                |                   |  |                                    |   |
| Real estate mortgage                             | \$ 114                    | \$ --                          | \$ 114            | \$ 431,395   | \$ 431,509                         | \$ --   |
| Production and intermediate-term<br>Agribusiness | --                        | --                             | --                | 232,783  | 232,783                            | --  |
| Communication                                    | --                        | --                             | --                | 9,256  | 9,256                              | --  |
| Energy   | --                        | --                             | --                | 1,830  | 1,830                              | --  |
| Rural residential real estate                    | --                        | --                             | --                | 861  | 861                                | --  |
|  | --                        | --                             | --                | 2,832  | 2,832                              | --  |
| <b>Total</b>                                     | <b>\$ 114</b>             | <b>\$ --</b>                   | <b>\$ 114</b>     | <b>\$ 678,957</b>                                      | <b>\$ 679,071</b>                  | <b>\$ --</b>  |

In 2015, the Association revised its methodology for determining the allowance for credit losses. The new methodology takes into consideration potential losses related to unfunded commitments, and as a result, we have established a separate reserve for unfunded commitments, which is included in Liabilities on the Association's balance sheet. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the income statement, along with the provision for loan losses.

A summary of changes in the allowance for loan losses is as follows:

|  | Balance at<br>March 31,<br>2015 | Charge-offs  | Recoveries  | Provision for<br>Loan Losses/<br>(Loan Loss<br>Reversals) | Balance at<br>June 30,<br>2015 |
|--|---------------------------------|--------------|-------------|---|--------------------------------|
| Real estate mortgage                             | \$ 161                          | \$ --        | \$ --       | \$ 38   | \$ 199                         |
| Production and intermediate-term<br>Agribusiness | 1,956                           | --           | 3           | (106)   | 1,853                          |
| Communication                                    | 14                              | --           | --          | (5)   | 9                              |
| Energy   | 1                               | --           | --          | 2   | 3                              |
| Rural residential real estate                    | 8                               | --           | --          | --  | 8                              |
|  | 1                               | --           | --          | --  | 1                              |
| <b>Total</b>                                     | <b>\$ 2,141</b>                 | <b>\$ --</b> | <b>\$ 3</b> | <b>\$ (71)</b>  | <b>\$ 2,073</b>                |

|                                  | Balance at<br>December 31,<br>2014 | Charge-offs | Recoveries  | Provision for<br>Loan Losses/<br>(Loan Loss<br>Reversals) | Balance at<br>June 30,<br>2015 |
|----------------------------------|------------------------------------|-------------|-------------|---|--------------------------------|
| Real estate mortgage             | \$ 167                             | \$ --       | \$ --       | \$ 32   | \$ 199                         |
| Production and intermediate-term | 1,994                              | 7           | 6           | (140)   | 1,853                          |
| Agribusiness                     | 84                                 | --          | --          | (75)  | 9                              |
| Communication                    | 1                                  | --          | --          | 2   | 3                              |
| Energy                           | 2                                  | --          | --          | 6   | 8                              |
| Rural residential real estate    | 1                                  | --          | --          | --  | 1                              |
| <b>Total</b>                     | <b>\$ 2,249</b>                    | <b>\$ 7</b> | <b>\$ 6</b> | <b>\$ (175)</b>   | <b>\$ 2,073</b>                |

|                                  | Balance at<br>March 31,<br>2014 | Charge-offs  | Recoveries  | Provision for<br>Loan Losses/<br>(Loan Loss<br>Reversals) | Balance at<br>June 30,<br>2014 |
|----------------------------------|---------------------------------|--------------|-------------|---|--------------------------------|
| Real estate mortgage             | \$ 150                          | \$ --        | \$ --       | \$ 4  | \$ 154                         |
| Production and intermediate-term | 1,939                           | --           | 2           | 6   | 1,947                          |
| Agribusiness                     | 83                              | --           | --          | (19)  | 64                             |
| Rural residential real estate    | 1                               | --           | --          | --  | 1                              |
| <b>Total</b>                     | <b>\$ 2,173</b>                 | <b>\$ --</b> | <b>\$ 2</b> | <b>\$ (9)</b>   | <b>\$ 2,166</b>                |

|                                  | Balance at<br>December 31,<br>2013 | Charge-offs | Recoveries  | Provision for<br>Loan Losses/<br>(Loan Loss<br>Reversals) | Balance at<br>June 30,<br>2014 |
|----------------------------------|------------------------------------|-------------|-------------|---|--------------------------------|
| Real estate mortgage             | \$ 167                             | \$ --       | \$ --       | \$ (13)   | \$ 154                         |
| Production and intermediate-term | 2,026                              | 8           | 8           | (79)  | 1,947                          |
| Agribusiness                     | 52                                 | --          | --          | 12  | 64                             |
| Rural residential real estate    | 2                                  | --          | --          | (1)   | 1                              |
| <b>Total</b>                     | <b>\$ 2,247</b>                    | <b>\$ 8</b> | <b>\$ 8</b> | <b>\$ (81)</b>  | <b>\$ 2,166</b>                |

A summary of changes in the reserve for unfunded commitments follows:

|                                   | <b>For the Three Months<br/>Ended June 30, 2015</b> | <b>For the Six Months<br/>Ended June 30, 2015</b> |
|-----------------------------------|---|---|
| Balance at beginning of period    | \$ 263  | \$ --   |
| Provision of unfunded commitments | (13)  | 250   |
| <b>Total</b>                      | <b>\$ 250</b>                                       | <b>\$ 250</b>                                     |

|                                  | Allowance for Credit Losses<br>Ending Balance at June 30, 2015 |   | Recorded Investments in<br>Loans Outstanding<br>Ending Balance at June 30, 2015 |   |
|----------------------------------|--|---|---|---|
|                                  | Individually<br>evaluated<br>impairment                        | Collectively<br>evaluated<br>impairment | Individually<br>evaluated<br>impairment   | Collectively<br>evaluated<br>impairment |
| Real estate mortgage             | \$ --  | \$ 199                                  | \$ 134  | \$ 451,928                              |
| Production and intermediate-term | --   | 1,853                                   | 73  | 229,007                                 |
| Agribusiness                     | --   | 9                                       | --  | 10,362                                  |
| Communication                    | --   | 3                                       | --  | 1,742                                   |
| Energy                           | --   | 8                                       | --  | 857                                     |
| Rural residential real estate    | --   | 1                                       | --  | 1,630                                   |
| <b>Total</b>                     | <b>\$ --</b>   | <b>\$ 2,073</b>                         | <b>\$ 207</b>   | <b>\$ 695,526</b>                       |

|                                  | Allowance for Credit Losses<br>Ending Balance at December 31, 2014 |           |  |              | Recorded Investments in<br>Loans Outstanding<br>Ending Balance at December 31, 2014 |            |  |                |
|----------------------------------|--|-----------|--|--------------|---|------------|--|----------------|
|                                  | Individually<br>evaluated<br>for<br>impairment                     | for       | Collectively<br>evaluated<br>for<br>impairment | for          | Individually<br>evaluated<br>for<br>impairment                                      | for        | Collectively<br>evaluated<br>for<br>impairment | for            |
| Real estate mortgage             | \$   | --        | \$   | 167          | \$  | 151        | \$   | 431,358        |
| Production and intermediate-term |  | --        |  | 1,994        |   | --         |  | 232,783        |
| Agribusiness                     |  | --        |  | 84           |   | --         |  | 9,256          |
| Communication                    |  | --        |  | 1            |   | --         |  | 1,830          |
| Energy                           |  | --        |  | 2            |   | --         |  | 861            |
| Rural residential real estate    |  | --        |  | 1            |   | --         |  | 2,832          |
| <b>Total</b>                     | <b>\$</b>  | <b>--</b> | <b>\$</b>                                      | <b>2,249</b> | <b>\$</b>   | <b>151</b> | <b>\$</b>                                      | <b>678,920</b> |

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider

The Association recorded no TDRs during the six months ended June 30, 2015. The Association had no TDRs within the previous 12 months for which there were subsequent payment defaults during the period. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at June 30, 2015.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table.

|                      | Loans modified as TDRs |                   | TDRs in Nonaccrual Status* |                   |
|----------------------|------------------------|-------------------|----------------------------|-------------------|
|                      | June 30, 2015          | December 31, 2014 | June 30, 2015              | December 31, 2014 |
| Real estate mortgage | \$ 134                 | \$ 135            | \$ --                      | \$ 84             |
| <b>Total</b>         | <b>\$ 134</b>          | <b>\$ 135</b>     | <b>\$ --</b>               | <b>\$ 84</b>      |

\* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status.

### NOTE 3 - CAPITAL

A \$44 thousand borrower cash patronage was declared and paid in April 2015.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

|   | Three Months Ended<br>June 30 |       | Six Months Ended<br>June 30 |       |
|---|-------------------------------|-------|-----------------------------|-------|
|   | 2015                          | 2014  | 2015                        | 2014  |
| Pension and other benefit plans:                    |                               |       |                             |       |
| Beginning balance                                   | \$ (21)                       | \$ -- | \$ (22)                     | \$ -- |
| Other comprehensive income before reclassifications | 1                             | --    | 2                           | --    |
| Ending balance                                      | \$ (20)                       | \$ -- | \$ (20)                     | \$ -- |

The following table represents reclassifications out of accumulated other comprehensive income.

|                                  | Amount Reclassified from Accumulated Other Comprehensive Income |      | Location of Gain/Loss Recognized in Statement of Income |
|----------------------------------|---|------|---|
|                                  | Three Months Ended June 30                                      |      |   |
|                                  | 2015  | 2014 |   |
| Pension and other benefit plans: |   |      |   |
| Net actuarial loss               | \$ 1  | \$ - | Salaries and employee benefit                           |
| Total reclassifications          | \$ 1  | \$ - |   |

|                                  | Amount Reclassified from Accumulated Other Comprehensive Income |       | Location of Gain/Loss Recognized in Statement of Income |
|----------------------------------|---|-------|---|
|                                  | Six Months Ended June 30  |       |   |
|                                  | 2015  | 2014  |   |
| Pension and other benefit plans: |   |       |   |
| Net actuarial loss               | \$ 2  | \$ -- | Salaries and employee benefit                           |
| Total reclassifications          | \$ 2  | \$ -- |   |

#### NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2014 Annual Report to Shareholders for a more complete description.

Assets measured at fair value on a recurring basis are summarized below:

|   | Fair Value Measurement Using |         |         | Total Fair Value |
|---|------------------------------|---------|---------|------------------|
|   | Level 1                      | Level 2 | Level 3 |                  |
| Assets held in nonqualified benefits trusts |                              |         |         |                  |
| June 30, 2015                               | \$ 127                       | \$ --   | \$ --   | \$ 127           |
| December 31, 2014                           | \$ 88                        | \$ --   | \$ --   | \$ 88            |

During the first six months of 2015, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at June 30, 2015 or December 31, 2014. The Association had no assets or liabilities measured at fair value on a non-recurring basis at June 30, 2015 or December 31, 2014.

#### Valuation Techniques

As more fully discussed in Note 2 to the 2014 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

##### *Assets Held in Non-Qualified Benefits Trusts*

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

#### NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 3, 2015, which is the date the financial statements were issued, and no material subsequent events were identified.