

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



**Quarterly Report  
June 30, 2016**

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 2015 CoBank Annual Report to Shareholders and 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, 2016, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2015 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Since year end 2015, the association's territory has experienced substantial rainfall over much of the area. Wheat yields have been above average throughout the territory, with some pockets of our area producing yields significantly above average. It is evident that grain prices remain under pressure, however the level of grain production should compensate somewhat for the lower than desired commodity prices. That being said, some input costs, especially those impacted by lower energy prices, have also experienced a decrease, but not at the same level producers continue to hope for. Cattle prices adjusted downward in late 2015 and the volatility in the cattle market continues into 2016 with some signs of stronger prices intermittently. The price fluctuations have adversely affected the cattle operators in the area, but health and gains remain above average helping to offset some of the price pressure being experienced by local producers. The average real estate values for our territory were strong in 2015 however the outlook for 2016 has been cautious with results to date indicating that values have remained flat or even declined slightly since year end. Real estate sales in 2016 have been limited which has resulted in close monitoring of land values to identify potential trends. For operators in the area, management of overhead expenses continues to be important for producers to maintain profitability. Off-farm income has always been an important part of the income stream of many of our customers however the recent downturn in the oil and gas economy has affected the level of off-farm income in some operations. Even so, significant equities remain evident across the portfolio and good financial managers will have the upper hand in this more volatile time. A higher level of financial management will be important to maintain profitability by working to control expenses while preserving liquidity in the operations we serve.

#### **LOAN PORTFOLIO**

Loans outstanding at June 30, 2016 totaled \$740,616, a decrease of \$1,779, or 0.24%, from loans of \$742,395 at December 31, 2015. The decrease was primarily due to seasonal repayments on short and intermediate term loans as well as seasonal repayments on loans to cooperatives. This decrease was offset primarily by an increase in real estate mortgage volume for the period.

#### **RESULTS OF OPERATIONS**

Net income for the six months ended June 30, 2016 was \$4,675, a decrease of \$586, or 11.14%, from the same period ended one year ago. This was driven primarily by an increase in salaries, information technology services, FCSIC premiums, other operating expenses, and a decrease in mineral income.

Net interest income for the six months ended June 30, 2016 was \$9,812, an increase of \$613, or 6.67%, compared with June 30, 2015. Net interest income increased as a result of increased loan volume.

The provision for credit losses for the six months ended June 30, 2016 was \$105, an increase of \$30, or 40%, from the provision for credit losses for the same period ended one year ago. The provision for credit losses increased as a result of increased risk in certain loans, however a \$400 reduction in the subjective allowance calculation in the first quarter partially offset this.

Noninterest income increased \$74 during the first six months of 2016 compared with the first six months in 2015 primarily due to increased patronage refunds from CoBank and increased other noninterest income offset by a decrease in mineral income.

Mineral income of \$167 was recognized during the first six months of 2016. Of this amount, quarterly payments totaling \$166 were received from CoBank.

During the first six months of 2016, noninterest expense increased \$1,243 to \$6,860, primarily due to increased salaries, purchased services, FCSIC premiums, and other noninterest expenses.

#### **CAPITAL RESOURCES**

Our shareholders' equity at June 30, 2016 was \$140,245, an increase from \$135,572 at December 31, 2015. This increase is due to net income and other comprehensive income, offset by net stock reductions since year end.

## REGULATORY MATTERS

On March 10, 2016, the FCA approved new rules ("New Capital Regulations") relating to regulatory capital requirements for System Banks, including CoBank, and Associations. The New Capital Regulations are scheduled to become effective January 1, 2017. The date the New Capital Regulations become effective is referred to herein as the "Effective Date." The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's mission as a government sponsored enterprise;
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 ("CET1"), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System Banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings ("URE") and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

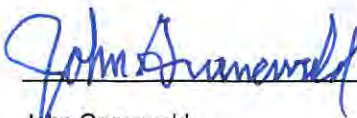
The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirements. If capital ratios fall below these buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer, expected to begin on January 1, 2017. There will be no phase-in of the leverage buffer.

## OTHER MATTERS

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.



Ricky Carothers  
Chairman of the Board  
August 4, 2016



John Grunewald  
President/CEO  
August 4, 2016



Jamey B. Mitchell  
Chief Financial Officer  
August 4, 2016

## Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2016	December 31 2015
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 740,616	\$ 742,395
Less allowance for loan losses	2,132	2,263
Net loans	738,484	740,132
Cash	2,601	2,880
Accrued interest receivable	14,218	10,350
Investment in CoBank, ACB	23,198	23,198
Premises and equipment, net	2,943	2,535
Prepaid benefit expense	370	392
Other assets	2,575	3,729
<b>Total assets</b>	<b>\$ 784,389</b>	<b>\$ 783,216</b>
<b>LIABILITIES</b>		
Note payable to CoBank, ACB	\$ 630,389	\$ 633,600
Advance conditional payments	9,250	7,349
Accrued interest payable	1,049	1,018
Patronage distributions payable	-	2,200
Accrued benefits liability	221	226
Reserve for unfunded commitments	476	243
Other liabilities	2,759	3,008
<b>Total liabilities</b>	<b>644,144</b>	<b>647,644</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	2,001	2,005
Additional paid-in capital	33,619	33,619
Unallocated retained earnings	104,651	99,976
Accumulated other comprehensive (loss)/income	(26)	(28)
<b>Total shareholders' equity</b>	<b>140,245</b>	<b>135,572</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 784,389</b>	<b>\$ 783,216</b>

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

## Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended June 30		For the six months ended June 30	
	2016	2015	2016	2015
<b>INTEREST INCOME</b>				
Loans	\$ 8,107	\$ 7,321	\$ 15,943	\$ 14,488
<b>Total interest income</b>	<b>8,107</b>	<b>7,321</b>	<b>15,943</b>	<b>14,488</b>
<b>INTEREST EXPENSE</b>				
Note payable to CoBank	3,136	2,663	6,079	5,244
Other	29	25	52	45
<b>Total interest expense</b>	<b>3,165</b>	<b>2,688</b>	<b>6,131</b>	<b>5,289</b>
Net interest income	4,942	4,633	9,812	9,199
Provision for credit losses/(Credit loss reversals)	115	(84)	105	75
Net interest income after provision for credit losses/credit loss reversals	4,827	4,717	9,707	9,124
<b>NONINTEREST INCOME</b>				
Financially related services income	15	5	17	11
Loan fees	4	4	10	9
Patronage refund from Farm Credit Institutions	711	640	1,414	1,274
Mineral income	83	163	167	403
Other noninterest income	65	9	220	57
<b>Total noninterest income</b>	<b>878</b>	<b>821</b>	<b>1,828</b>	<b>1,754</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	1,708	1,473	3,456	3,004
Occupancy and equipment	152	142	292	257
Purchased services from AgVantis, Inc.	427	306	849	606
Farm Credit Insurance Fund premium	230	171	460	342
Merger-implementation costs	26	10	26	12
Supervisory and examination costs	56	54	112	109
Other noninterest expense	815	628	1,665	1,287
<b>Total noninterest expense</b>	<b>3,414</b>	<b>2,784</b>	<b>6,860</b>	<b>5,617</b>
<b>Net income</b>	<b>2,291</b>	<b>2,754</b>	<b>4,675</b>	<b>5,261</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Other comprehensive income	1	1	2	2
<b>Comprehensive income</b>	<b>\$ 2,292</b>	<b>\$ 2,755</b>	<b>\$ 4,677</b>	<b>\$ 5,263</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 Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<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
<b>Balance at December 31, 2015</b>	\$ 2,005	\$ 33,619	\$ 99,976	\$ (28)	\$ 135,572
Comprehensive income			4,675	2	4,677
Stock issued	82				82
Stock retired	(86)				(86)
<b>Balance at June 30, 2016</b>	\$ 2,001	\$ 33,619	\$ 104,651	\$ (26)	\$ 140,245

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, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited second quarter 2016 financial statements should be read in conjunction with the 2015 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, 2015 as contained in the 2015 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, 2016. Descriptions of the significant accounting policies are included in the 2015 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 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. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the 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 August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning 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, 2016	December 31, 2015
Real estate mortgage	\$ 471,260	\$ 453,286
Production and intermediate-term	256,454	272,071
Agribusiness:		
Loans to cooperatives	8,385	11,618
Farm-related business	1,818	1,797
Rural infrastructure:		
Communication	770	1,648
Energy	763	768
Rural residential real estate	1,166	1,207
<b>Total loans</b>	<b>\$ 740,616</b>	<b>\$ 742,395</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, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 31,097	\$ 9,384	\$ 1,265	\$ -	\$ 32,362	\$ 9,384
Production and intermediate-term	22,548	3,834	-	-	22,548	3,834
Agribusiness	6,286	-	584	-	6,870	-
Rural infrastructure	1,533	-	-	-	1,533	-
<b>Total</b>	<b>\$ 61,464</b>	<b>\$ 13,218</b>	<b>\$ 1,849</b>	<b>\$ -</b>	<b>\$ 63,313</b>	<b>\$ 13,218</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:

	June 30, 2016	December 31, 2015
Real estate mortgage		
Acceptable	96.23%	98.31%
OAEM	3.31%	1.25%
Substandard	0.46%	0.44%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
Production and intermediate-term		
Acceptable	95.96%	97.06%
OAEM	3.11%	2.77%
Substandard	0.93%	0.17%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
Agribusiness		
Acceptable	100.00%	100.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
Rural infrastructure		
Acceptable	100.00%	68.21%
OAEM	0.00%	31.79%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>
Rural residential real estate		
Acceptable	100.00%	99.54%

OAEM	0.00%	0.46%
Substandard	0.00%	0.00%
Total	100.00%	100.00%
Total Loans		
Acceptable	96.20%	97.79%
OAEM	3.19%	1.88%
Substandard	0.61%	0.33%
Total	100.00%	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, 2016	December 31, 2015
Nonaccrual loans		
Real estate mortgage	\$ -	\$ 665
Total nonaccrual loans	-	665
Accruing restructured loans		
Real estate mortgage	108	123
Total accruing restructured loans	108	123
Total impaired loans	\$ 108	\$ 788

Additional impaired loan information is as follows:

	June 30, 2016			December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	\$ 108	\$ 124	\$ -	\$ 788	\$ 792	\$ -
Production and intermediate-term	-	1,349	-	-	1,349	-
Total	\$ 108	\$ 1,473	\$ -	\$ 788	\$ 2,141	\$ -

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, 2016		For the Three Months Ended June 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 242	\$ 43	\$ 134	\$ 1
Production and intermediate-term	-	-	24	1
Total	\$ 242	\$ 43	\$ 158	\$ 2

	For the Six Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 579	\$ 46	\$ 139	\$ 2
Production and intermediate-term	-	-	12	1
Total	\$ 579	\$ 46	\$ 151	\$ 3

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

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
<b>June 30, 2016</b>						
Real estate mortgage	\$ 697	\$ -	\$ 697	\$ 479,566	\$ 480,263	\$ -
Production and intermediate-term	3,101	-	3,101	258,503	261,604	-
Agribusiness	-	-	-	10,262	10,262	-
Rural infrastructure	-	-	-	1,533	1,533	-
Rural residential real estate	-	-	-	1,172	1,172	-
<b>Total</b>	<b>\$ 3,798</b>	<b>\$ -</b>	<b>\$ 3,798</b>	<b>\$ 751,036</b>	<b>\$ 754,834</b>	<b>\$ -</b>

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
<b>December 31, 2015</b>						
Real estate mortgage	\$ 1,143	\$ 665	\$ 1,808	\$ 458,182	\$ 459,990	\$ -
Production and intermediate-term	521	-	521	275,129	275,650	-
Agribusiness	-	-	-	13,476	13,476	-
Rural infrastructure	-	-	-	2,417	2,417	-
Rural residential real estate	-	-	-	1,212	1,212	-
<b>Total</b>	<b>\$ 1,664</b>	<b>\$ 665</b>	<b>\$ 2,329</b>	<b>\$ 750,416</b>	<b>\$ 752,745</b>	<b>\$ -</b>

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

	Balance at March 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	\$ 256	\$ -	\$ -	\$ (3)	\$ 253
Production and intermediate-term	1,934	-	3	(91)	1,846
Agribusiness	18	-	-	4	22
Rural infrastructure	17	-	-	(6)	11
Rural residential real estate	1	-	-	(1)	-
<b>Total</b>	<b>\$ 2,226</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ (97)</b>	<b>\$ 2,132</b>

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	\$ 243	\$ -	\$ -	\$ 10	\$ 253
Production and intermediate-term	1,975	8	5	(126)	1,846
Agribusiness	26	-	-	(4)	22
Rural infrastructure	18	-	-	(7)	11
Rural residential real estate	1	-	-	(1)	-
<b>Total</b>	<b>\$ 2,263</b>	<b>\$ 8</b>	<b>\$ 5</b>	<b>\$ (128)</b>	<b>\$ 2,132</b>

	Balance at March 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2015
Real estate mortgage	\$ 161	\$ -	\$ -	\$ 38	\$ 199
Production and intermediate-term	1,956	-	3	(106)	1,853
Agribusiness	14	-	-	(5)	9
Rural infrastructure	9	-	-	2	11
Rural residential real estate	1	-	-	-	1
<b>Total</b>	<b>\$ 2,141</b>	<b>\$ -</b>	<b>\$ 3</b>	<b>\$ (71)</b>	<b>\$ 2,073</b>

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2015
Real estate mortgage	\$ 167	\$ -	\$ -	\$ 32	\$ 199
Production and intermediate-term	1,994	7	6	(140)	1,853
Agribusiness	84	-	-	(75)	9
Rural infrastructure	3	-	-	8	11
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>

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive income, along with the provision for loan losses.

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Balance at beginning of period	\$ 264	\$ 263	\$ 243	\$ -
Provision for unfunded commitments	212	(13)	233	250
<b>Total</b>	<b>\$ 476</b>	<b>\$ 250</b>	<b>\$ 476</b>	<b>\$ 250</b>

	Allowance for Credit Losses Ending Balance at June 30, 2016		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 253	\$ 108	\$ 480,155
Production and intermediate-term	-	1,846	-	261,604
Agribusiness	-	22	-	10,262
Rural infrastructure	-	11	-	1,533
Rural residential real estate	-	-	-	1,172
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,132</b>	<b>\$ 108</b>	<b>\$ 754,726</b>

	Allowance for Credit Losses Ending Balance at December 31, 2015		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 243	\$ 788	\$ 459,202
Production and intermediate-term	-	1,975	-	275,650
Agribusiness	-	26	-	13,476
Rural infrastructure	-	18	-	2,417
Rural residential real estate	-	1	-	1,212
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,263</b>	<b>\$ 788</b>	<b>\$ 751,957</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, 2016. 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, 2016. 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, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Real estate mortgage	\$ 122	\$ 136	\$ -	\$ -
<b>Total</b>	<b>\$ 122</b>	<b>\$ 136</b>	<b>\$ -</b>	<b>\$ -</b>

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

### NOTE 3 - CAPITAL

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Pension and other benefit plans:				
Beginning balance	\$ (27)	\$ (21)	\$ (28)	\$ (22)
Other comprehensive income before reclassifications	1	1	2	2
Ending balance	\$ (26)	\$ (20)	\$ (26)	\$ (20)

The following table represents reclassifications out of accumulated other comprehensive income/(loss).

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Three Months Ended June 30		
	2016	2015	
Pension and other benefit plans:			Salaries and Employee Benefits
Net actuarial loss	\$ 1	\$ 1	
<b>Total reclassifications</b>	<b>\$ 1</b>	<b>\$ 1</b>	

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	For the Six Months Ended June 30		
	2016	2015	
Pension and other benefit plans: Net actuarial loss	\$ 2	\$ 2	Salaries and Employee Benefits
Total reclassifications	\$ 2	\$ 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 2015 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				
<b>June 30, 2016</b>	\$ 194	\$ -	\$ -	\$ 194
December 31, 2015	\$ 148	\$ -	\$ -	\$ 148

The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented.

During the first six months of 2016, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no assets or liabilities measured at fair value on a non-recurring basis at June 30, 2016 or December 31, 2015.

#### Valuation Techniques

As more fully discussed in Note 2 to the 2015 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 4<sup>th</sup>, 2016, which is the date the financial statements were issued, and no material subsequent events were identified.