

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



**Quarterly Report  
September, 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**  
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the nine months ended September 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 quarter end June 30, 2015, much of the association territory has seen average to above average rainfall. The soil water profile remains adequate in many areas to allow for good winter wheat planting conditions and many of the fall crops have experienced good yields as well. A number of the native grass pastures in our territory have had a chance to recover over the summer months and adequate winter forage should be available for cattle this winter over much of the area. Cattle prices have adjusted substantially with a large market correction over the past few months. In addition, grain prices remain at or close to breakeven levels at this time. Overall, real estate markets appear to be stable, and not necessarily increasing at the rates seen over the past several years. Interest rates remain low, and the cost of production seems to have stabilized. Off-farm income has always been a vital part of the income stream of many of our customers. However, with the recent downturn in the oil and gas economy, it is evident that those affected by this industry will have off farm income pressures not experienced in recent years. Net farm income levels have softened compared to the last few years as well.

**LOAN PORTFOLIO**

Loans outstanding at September 30, 2015 totaled \$702,012 thousand, an increase of \$30,661 thousand, or 4.57%, from loans of \$671,351 thousand at December 31, 2014. The increase was primarily due to new mortgage loan volume, although the commercial loan volume did increase moderately as well, and both were offset by scheduled repayments as well as seasonal repayments on commercial operating loans.

**RESULTS OF OPERATIONS**

Net income for the nine months ended September 30, 2015 was \$7.9 million, an increase of \$3.2 million, or 69.09%, 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 as well as loan growth since that time. The increase in net income was partially offset by increased non-interest expense compared to the same period one year ago.

Net interest income for the nine months ended September 30, 2015 was \$13.8 million, an increase of \$4.2 million, or 43.95%, compared with September 30, 2014. Net interest income increased primarily as a result of the merger along with increased loan volume compared to the same period one year ago.

The provision for credit losses for the nine months ended September 30, 2015 was \$116 thousand, compared with a credit loss reversal of \$32 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 along with new lending activity since that time and an increased risk profile in certain loans.

Noninterest income increased \$700 thousand during the first nine months of 2015 compared with the first nine months in 2014 primarily due to increased patronage refunds of \$625 thousand from CoBank along with increased mineral income. The increases are primarily a result of increased proportions due to the merger.

Mineral income of \$581 thousand was recognized during the first nine months of 2015. Of this amount, quarterly payments totaling \$548 thousand were received from CoBank.

During the first nine months of 2015, noninterest expense increased \$1.5 million to \$8.4 million, primarily due to increases in salaries and benefits, purchased 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 September 30, 2015 was \$136 million, an increase from \$128.1 million at December 31, 2014. This increase is due to net income, other comprehensive income, increased capital stock and was partially offset by patronage distributions.

#### **REGULATORY MATTERS**

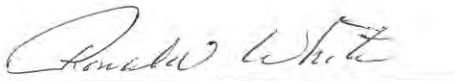
On May 8, 2014, the Farm Credit Administration approved a proposed rule to modify the regulatory capital requirements for System Associations. The stated objectives of the proposed rule are as follows:

- 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.

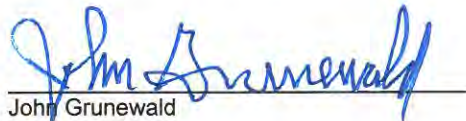
As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity tier 1, tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The proposal would add a minimum tier 1 leverage ratio for 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  
November 2, 2015



John Grunewald  
President/CEO  
November 2, 2015



Jamey B. Mitchell  
Vice President/CFO  
November 2, 2015

## Consolidated Statement of Condition

(Dollars in Thousands)

	September 30 2015	December 31 2014
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 702,012	\$ 671,351
Less allowance for loan losses	2,097	2,249
Net loans	699,915	669,102
Cash	2,147	5,332
Accrued interest receivable	13,379	7,720
Investment in CoBank	19,653	19,653
Premises and equipment, net	2,603	1,797
Prepaid benefit expense	71	580
Other assets	2,946	3,235
<b>Total assets</b>	<b>\$ 740,714</b>	<b>\$ 707,419</b>
<b>LIABILITIES</b>		
Note payable to CoBank	\$ 591,228	\$ 566,065
Advance conditional payments	10,211	6,253
Accrued interest payable	954	2,341
Patronage distributions payable	-	2,200
Accrued benefits liability	217	220
Reserve for unfunded commitments	257	-
Other liabilities	1,893	2,242
<b>Total liabilities</b>	<b>604,760</b>	<b>579,321</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	1,985	1,966
Additional paid-in capital	33,619	33,619
Unallocated retained earnings	100,369	92,535
Accumulated other comprehensive (loss)/income	(19)	(22)
<b>Total shareholders' equity</b>	<b>135,954</b>	<b>128,098</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 740,714</b>	<b>\$ 707,419</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 September 30		For the nine months ended September 30	
	2015	2014	2015	2014
<b>INTEREST INCOME</b>				
Loans	\$ 7,382	\$ 5,077	\$ 21,870	\$ 14,988
<b>Total interest income</b>	<b>7,382</b>	<b>5,077</b>	<b>21,870</b>	<b>14,988</b>
<b>INTEREST EXPENSE</b>				
Note payable to CoBank	2,754	1,791	7,998	5,339
Other	28	22	73	63
<b>Total interest expense</b>	<b>2,782</b>	<b>1,813</b>	<b>8,071</b>	<b>5,402</b>
Net interest income	4,600	3,264	13,799	9,586
Provision for credit losses/(credit loss reversals)	41	49	116	(32)
Net interest income after provision for credit losses/credit loss reversals	4,559	3,215	13,683	9,618
<b>NONINTEREST INCOME</b>				
Financially related services income	7	7	18	12
Loan fees	(2)	3	7	9
Patronage refund from Farm Credit Institutions	652	440	1,926	1,301
Mineral income	178	158	581	491
Other noninterest income	17	26	74	93
<b>Total noninterest income</b>	<b>852</b>	<b>634</b>	<b>2,606</b>	<b>1,906</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	1,430	1,364	4,435	3,888
Occupancy and equipment	110	160	367	328
Purchased services from AgVantis, Inc.	310	189	916	548
Farm Credit Insurance Fund premium	172	104	514	312
Merger-implementation costs	-	93	12	170
Supervisory and examination costs	42	40	151	120
Other noninterest expense	730	413	2,016	1,499
<b>Total noninterest expense</b>	<b>2,794</b>	<b>2,363</b>	<b>8,411</b>	<b>6,865</b>
<b>Net income</b>	<b>2,617</b>	<b>1,486</b>	<b>7,878</b>	<b>4,659</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Other comprehensive income	1	-	3	-
<b>Comprehensive income</b>	<b>\$ 2,618</b>	<b>\$ 1,486</b>	<b>\$ 7,881</b>	<b>\$ 4,659</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, 2013</b>	\$ 1,340	\$ -	\$ 87,838	\$ -	\$ 89,178
Comprehensive income			4,659	-	4,659
Stock issued	100				100
Stock retired	(94)				(94)
<b>Balance at September 30, 2014</b>	\$ 1,346	\$ -	\$ 92,497	\$ -	\$ 93,843
<b>Balance at December 31, 2014</b>	\$ 1,966	\$ 33,619	\$ 92,535	\$ (22)	\$ 128,098
Comprehensive income			7,878	3	7,881
Stock issued	163				163
Stock retired	(144)				(144)
Patronage distributions: Cash			(44)		(44)
<b>Balance at September 30, 2015</b>	\$ 1,985	\$ 33,619	\$ 100,369	\$ (19)	\$ 135,954

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 third 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 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.

	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 447,697	\$ 426,293
Production and intermediate-term	238,803	230,334
Agribusiness:		
Loans to cooperatives	6,217	2,998
Processing and marketing	4,249	4,945
Farm-related business	847	1,271
Communication	1,695	1,830
Energy	814	858
Rural residential real estate	1,690	2,822
Total loans	\$ 702,012	\$ 671,351

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 September 30, 2015:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 29,562	\$ 12,540	\$ 1,635	\$ --	\$ 31,197	\$ 12,540
Production and intermediate-term	22,212	3,949	--	--	22,212	3,949
Agribusiness	6,330	--	--	--	6,330	--
Communication	1,765	--	--	--	1,765	--
Energy	847	--	--	--	847	--
<b>Total</b>	<b>\$ 60,716</b>	<b>\$ 16,489</b>	<b>\$ 1,635</b>	<b>\$ --</b>	<b>\$ 62,351</b>	<b>\$ 16,489</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>September 30, 2015</b>	December 31, 2014
Real estate mortgage		
Acceptable	<b>98.59%</b>	99.29%
OAEM	<b>1.10%</b>	0.48%
Substandard	<b>0.31%</b>	0.23%
<b>Total</b>	<b>100.00%</b>	100.00%
Production and intermediate-term		
Acceptable	<b>97.31%</b>	99.13%
OAEM	<b>2.68%</b>	0.85%
Substandard	<b>.01%</b>	0.02%
<b>Total</b>	<b>100.00%</b>	100.00%
Agribusiness		
Acceptable	<b>100.00%</b>	99.67%
OAEM	<b>--</b>	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		
OAEM	<b>100.00%</b>	100.00%
<b>Total</b>	<b>100.00%</b>	100.00%
Rural residential real estate		
Acceptable	<b>89.44%</b>	93.47%
OAEM	<b>10.56%</b>	6.53%
<b>Total</b>	<b>100.00%</b>	100.00%
Total Loans		
Acceptable	<b>98.04%</b>	99.22%
OAEM	<b>1.75%</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>	September 30, 2015	December 31, 2014
Nonaccrual loans		
Real estate mortgage	\$ --	\$ 84
Total nonaccrual loans	--	84
Accruing restructured loans		
Real estate mortgage	135	51
Total accruing restructured loans	135	51
Total high risk assets	\$ 135	\$ 135

Additional impaired loan information is as follows:

	September 30, 2015			December 31, 2014		
	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	\$ 135	\$ 137	\$ --	\$ 135	\$ 150	\$ --
Production and intermediate-term	--	1,349	--	--	1,480	--
Total impaired loans:	\$ 135	\$ 1,486	\$ --	\$ 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 September 30, 2015		For the Three Months Ended September 30, 2014	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 135	\$ 1	\$ --	\$ --
Total	\$ 135	\$ 1	\$ --	\$ --

	For the Nine Months Ended September 30, 2015		For the Nine Months Ended September 30, 2014	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	\$ 137	\$ 4	\$ --	\$ --
Production and intermediate-term	8	1	--	--
Total	\$ 145	\$ 5	\$ --	\$ --

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>September 30, 2015</b>						
Real estate mortgage	\$ 765	\$ --	\$ 765	\$ 455,952	\$ 456,717	\$ --
Production and intermediate-term	98	--	98	243,005	243,103	--
Agribusiness	--	--	--	11,365	11,365	--
Communication	--	--	--	1,695	1,695	--
Energy	--	--	--	814	814	--
Water and waste water	--	--	--	--	--	--
Rural residential real estate	--	--	--	1,697	1,697	--
Mission-related	--	--	--	--	--	--
Agricultural export finance	--	--	--	--	--	--
Lease receivables	--	--	--	--	--	--
<b>Total</b>	<b>\$ 863</b>	<b>\$ --</b>	<b>\$ 863</b>	<b>\$ 714,528</b>	<b>\$ 715,391</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, 2014</b>						
Real estate mortgage	\$ 114	\$ --	\$ 114	\$ 431,395	\$ 431,509	\$ --
Production and intermediate-term	--	--	--	232,783	232,783	--
Agribusiness	--	--	--	9,256	9,256	--
Communication	--	--	--	1,830	1,830	--
Energy	--	--	--	861	861	--
Rural residential real estate	--	--	--	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 June 30, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2015
Real estate mortgage	\$ 199	\$ --	\$ --	\$ 8	\$ 207
Production and intermediate-term	1,853	14	4	5	1,848
Agribusiness	9	--	--	14	23
Communication	3	--	--	(1)	2
Energy	8	--	--	8	16
Rural residential real estate	1	--	--	--	1
<b>Total</b>	<b>\$ 2,073</b>	<b>\$ 14</b>	<b>\$ 4</b>	<b>\$ 34</b>	<b>\$ 2,097</b>

	Balance at December 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2015
Real estate mortgage	\$ 167	\$ --	\$ --	\$ 40	\$ 207
Production and intermediate-term	1,994	21	10	(135)	1,848
Agribusiness	84	--	--	(61)	23
Communication	1	--	--	1	2
Energy	2	--	--	14	16
Rural residential real estate	1	--	--	--	1
<b>Total</b>	<b>\$ 2,249</b>	<b>\$ 21</b>	<b>\$ 10</b>	<b>\$ (141)</b>	<b>\$ 2,097</b>

	Balance at June 30, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2014
Real estate mortgage	\$ 154	\$ --	\$ --	\$ (10)	\$ 144
Production and intermediate-term	1,947	13	4	47	1,985
Agribusiness	64	--	--	12	76
Rural residential real estate	1	--	--	--	1
<b>Total</b>	<b>\$ 2,166</b>	<b>\$ 13</b>	<b>\$ 4</b>	<b>\$ 49</b>	<b>\$ 2,206</b>

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2014
Real estate mortgage	\$ 167	\$ --	\$ --	\$ (23)	\$ 144
Production and intermediate-term	2,026	21	12	(32)	1,985
Agribusiness	52	--	--	24	76
Rural residential real estate	2	--	--	(1)	1
<b>Total</b>	<b>\$ 2,247</b>	<b>\$ 21</b>	<b>\$ 12</b>	<b>\$ (32)</b>	<b>\$ 2,206</b>

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

	<b>For the Three Months Ended September 30, 2015</b>	<b>For the Nine Months Ended September 30, 2015</b>
Balance at beginning of period	\$ 250	\$ --
Provision of unfunded commitments	7	257
<b>Total</b>	<b>\$ 257</b>	<b>\$ 257</b>

	Allowance for Credit Losses Ending Balance at September 30, 2015		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2015	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ --	\$ 207	\$ 135	\$ 456,582
Production and intermediate-term	--	1,848	--	243,103
Agribusiness	--	23	--	11,365
Communication	--	2	--	1,695
Energy	--	16	--	814
Rural residential real estate	--	1	--	1,697
<b>Total</b>	<b>\$ --</b>	<b>\$ 2,097</b>	<b>\$ 135</b>	<b>\$ 715,256</b>

	Allowance for Credit Losses Ending Balance at December 31, 2014		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
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>\$ 2,249</b>	<b>\$ 151</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 nine months ended September 30, 2015. The association had no TDR's 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 September 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*	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 135	\$ 135	\$ --	\$ 84
<b>Total</b>	<b>\$ 135</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 September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Pension and other benefit plans:				
Beginning balance	\$ (20)	\$ --	\$ (22)	\$ --
Other comprehensive income before reclassifications	1	--	3	--
Ending balance	\$ (19)	\$ --	\$ (19)	\$ --

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
	Three Months Ended September 30		
	2015	2014	
Pension and other benefit plans:			Salaries and employee benefit
Net actuarial loss	\$ 1	\$ --	
<b>Total reclassifications</b>	<b>\$ 1</b>	<b>\$ --</b>	

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)		Location of Gain/Loss Recognized in Statement of Income
	Nine Months Ended September 30		
	2015	2014	
Pension and other benefit plans:			Salaries and employee benefit
Net actuarial loss	\$ 3	\$ --	
Total reclassifications	\$ 3	\$ --	

#### 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				
<b>September 30, 2015</b>	\$ 137	\$ --	\$ --	\$ 137
December 31, 2014	\$ 88	\$ --	\$ --	\$ 88

During the first nine 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 September 30, 2015 or December 31, 2014. The Association had no assets or liabilities measured at fair value on a non-recurring basis at September 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 November 2, 2015, which is the date the financial statements were issued, and no material subsequent events were identified.