Farm Credit of Western Oklahoma, ACA

Quarterly Report
June 30, 2020

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 2019 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**, 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 six months ended June 30, 2020, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2019 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Currently, our lending territory is being impacted by drought conditions of varying degrees, with the panhandle and the central regions of our territory being the areas most impacted by the lack of rainfall at the current time. USDA rates the majority of soil moisture conditions across the state of Oklahoma as adequate to surplus at this time even though certain areas of our territory are currently not as fortunate. Presently, according to USDA, growing crop conditions across the state are predominantly within the fair to good range.

Early in 2020, loan demand was strong, moisture was adequate, commodity prices had stabilized to some extent and profitability had returned to the cattle industry. However, the positive outlook has been overshadowed by the onset of the COVID-19 pandemic which has impacted commodity prices, off farm income, oil and gas activity, as well as the health of people across the state of Oklahoma and throughout the world. Given the current financial stress and the economic outlook, the unemployment rate is elevated and the federal government has worked diligently to inject liquidity into and stabilize the financial markets, while at the same time working to provide stimulus to the United States economy as the world looks for adequate ways to protect people from the COVID-19 pandemic.

These are stressful economic times in America and throughout the world, and the impact to the agricultural sector of the economy is no different. Commodity prices have been negatively impacted and the financial strength that part time farmers have relied upon from off farm income diversification is currently under pressure. However, interest rates have declined to historically low levels, greatly reducing the cost of borrowed capital.

With the current economic stress impacting rural America, the uncertainty of continued strength in the value of agricultural real estate is an economic concern to the agricultural industry. Average real estate values in Oklahoma have shown signs of strength over the past few years when compared to real estate values nationwide, but given the current environment, it will be important to continue to evaluate the sustainability of this market strength over time. USDA National Agriculture Statistics indicate that Oklahoma farm real estate values increased by 3.89% in 2019, but the continuation of Oklahoma real estate appreciation remains in question given the other factors previously mentioned. Although land values have been increasing on average statewide in Oklahoma, there are pockets of weakness that have been noted and future land value studies will indicate to what level the current stress in the rural economy will impact land values across the region.

Although concern over the rural economic environment persists, significant equities remain across our customer base. During this period of economic uncertainty, solid financial managers will have the upper hand and a higher level of financial management is expected from our customer base in order to maintain profitability by working to control expenses while maintaining liquidity.

The effects of the COVID-19 pandemic could have a material adverse effect on our Association's business, results of operations and financial condition. The COVID-19 pandemic continues as a global public health crisis and a global economic crisis. During much of the second quarter, actions by government authorities to stem the spread of the disease shut down entire sectors of the global economy, forcing millions of people out of work, and precipitated a contraction in economic output. In the United States, the Federal Reserve deployed a full range of emergency monetary stimulus tools to ensure the financial system continued to function. The administration and Congress have also passed aggressive fiscal stimulus measures. As states and cities have re-opened, certain areas of the country have experienced a substantial increase in cases. It remains to be seen how effective these policy responses will be given the unique attributes of the continuing pandemic.

Virtually all ag commodities could experience credit stress in the current ag economy in the near term but specifically, we expect stress in oil/gas income, off-farm income, ethanol, dairy and timber products. Ethanol, dairy and timber products make up a small percentage of our total portfolio. Off farm income, specifically tied to the oil and gas industry, will be under pressure in the coming months. Unemployment has not been a factor for our customers for a number of years, but in the near term, it will be a negative factor and will have an impact on off farm income. Demand for beef and the volatility in the price of beef are primary concerns for our Association given the concentration of beef cattle in our portfolio. The closure, reduction in staff and/or uncertainty in and around beef packing houses continues to be a concern to our Association as well, given the disruptions it has caused to the beef supply chain. That being said, we anticipate completing portfolio stress testing as soon as defendable information becomes available.

At the present time, six out of seven of our branch locations are open and fully functional. One branch isn't currently open at this time due to COVID-19 impacts but that location is conducting business remotely. Any customers being serviced by that branch are encouraged to visit other nearby locations if they are in need of in person financial services.

The COVID-19 pandemic has heightened many risks, including credit risk, liquidity risk, market risk, and operational risk. The effectiveness of our mitigation efforts and the extent to which COVID-19 affects our business, results of operations and financial condition may depend on factors beyond our control.

The U.S. government has initiated various programs in support of the COVID-19 economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. Among other provisions, the CARES Act made available for small businesses almost $350 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the Small Business Administration (SBA). The Association obtained approval from the SBA in early April 2020 to participate as a lender in the PPP. In April 2020, Congress increased funding for the PPP by $310 billion. Since the Association obtained SBA approval to participate in the PPP, we have successfully processed $504 thousand in PPP loans for customers. The Association has also implemented a Disaster Deferral Program in an effort to facilitate loan payment deferrals for customers being impacted by COVID-19.

On March 3, 2020 and March 4, 2020, respectively, the boards of directors of Farm Credit of Western Oklahoma, ACA and AgPreference, ACA approved a letter of intent to pursue a merger. The Associations have been completing due diligence since executing the letter of intent in order to develop definitive terms of the merger. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

Detailed disclosure packages, including voting ballots, will be mailed out to all stockholders in the fall of 2020. Stockholder meetings will be held to provide all stockholders with an opportunity to have their questions regarding the merger answered. Subject to regulatory and shareholder approval, the merger will be effective January 1, 2021.

LOAN PORTFOLIO

Loans outstanding at June 30, 2020, totaled $903.5 million, an increase of $22.5 million, or 2.55%, from loans of $881.0 million at December 31, 2019. The increase was primarily due to customer demand and marketing efforts resulting in growth for both the real estate mortgage portfolio, as well as growth in the agricultural export finance portfolio which was the result of loan participations.

Although the overall credit quality of our loan portfolio remained strong during the first six months of 2020, economic conditions deteriorated rapidly during the latter part of March 2020 and continue to be uncertain. The spread of COVID-19 around the world, particularly in the U.S., has caused volatility and unfavorable conditions in the U.S. and international markets. There is significant uncertainty around the magnitude and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. As such, it is uncertain if COVID-19 will have a material impact on our credit quality. If the effect of COVID-19 results in repayment shortfalls on loans in our portfolio, we could incur credit losses. At this time, we believe the credit quality impacts within our loan portfolio resulting from the COVID-19 business disruptions will be mixed with certain industries negatively impacted.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2020, was $5.8 million, a decrease of $536 thousand, or 8.45%, from the same period ended one year ago. The decrease was caused by an increase in salaries and employee benefits, due primarily to increased pension funding, further impacted by an increase in provision for credit losses, and partially offset by an increase in net interest income.

Net interest income for the six months ended June 30, 2020, was $11.7 million, an increase of $852 thousand, or 7.86%, compared with the six months ended June 30, 2019. Net interest income increased as a result of loan growth offset in part by reduced earnings on our own funds.

The provision for credit losses for the six months ended June 30, 2020, was $135 thousand, an increase of $131 thousand, from the same period ended one year ago. The provision for credit losses increased as a result of loan growth and increased risk in certain loans.

Noninterest income increased $36 thousand during the first six months of 2020 compared with the first six months in 2019 primarily due to increased loan fees and increased other noninterest income, offset in part by a reduction in mineral income. Also included in noninterest income is a refund of $188 thousand from Farm Credit System Insurance Corporation (FCSIC), an increase of $2 thousand compared with the refund in 2019. The refunds are our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2019 Annual Report to Shareholders for additional information.

Mineral income of $207 thousand was recognized during the first six months of 2020. Of this amount, $205 thousand was received from CoBank. The decrease for the six months ended June 30, 2020, compared with first six months of 2019 is primarily the result of a significant drop in crude oil and natural gas prices and production volumes in the second quarter of 2020.

During the first six months of 2020, noninterest expense increased $1.3 million to $7.7 million, due primarily to increased salaries and employee benefits, impacted significantly by increased pension funding, in addition to an increase in costs from our service provider, AgVantis.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2020, was $175.5 million, an increase from $169.7 million at December 31, 2019. This increase is due to net income and the amortization of pension costs included in the net periodic benefit cost, further increased by net stock issuances.

OTHER MATTERS

Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. As of June 30, 2020, the Association had $12.9 million in LIBOR-indexed loans repricing after 2021. At this time, we are unable to predict whether or when LIBOR will cease to be available or if SOFR or any other alternative reference rate will become the benchmark to replace LIBOR. Refer to the 2019 Annual Report for further information.

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.

John Grunewald	Jamey B. Mitchell	Alan Schenk
President/CEO	CFO	Chairman of the Board
August 3, 2020	August 3, 2020	August 3, 2020

Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2020	December 31 2019
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 903,479**	$ 881,012
Less allowance for loan losses	**1,927**	1,862
Net loans	**901,552**	879,150
Cash	**2,228**	3,898
Accrued interest receivable	**19,189**	15,913
Investment in CoBank, ACB	**28,474**	28,474
Premises and equipment, net	**5,231**	5,068
Prepaid benefit expense	**3,955**	3,552
Other assets	**3,320**	4,785
Total assets	**$ 963,949**	$ 940,840
LIABILITIES		
Note payable to CoBank, ACB	**$ 773,960**	$ 754,409
Advance conditional payments	**9,571**	7,320
Accrued interest payable	**1,216**	1,639
Patronage distributions payable	**-**	3,500
Accrued benefits liability	**279**	282
Reserve for unfunded commitments	**502**	445
Other liabilities	**2,933**	3,586
Total liabilities	**788,461**	771,181
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**2,043**	2,026
Additional paid-in capital	**33,619**	33,619
Unallocated retained earnings	**139,899**	134,095
Accumulated other comprehensive income/(loss)	**(73)**	(81)
Total shareholders' equity	**175,488**	169,659
Total liabilities and shareholders' equity	**$ 963,949**	$ 940,840

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 **2020**	2019	For the six months ended June 30 **2020**	2019
INTEREST INCOME				
Loans	**$ 9,976**	$ 10,466	**$ 20,706**	$ 20,810
Total interest income	**9,976**	10,466	**20,706**	20,810
INTEREST EXPENSE				
Note payable to CoBank, ACB	**4,089**	5,029	**8,939**	9,904
Other	**31**	32	**70**	61
Total interest expense	**4,120**	5,061	**9,009**	9,965
Net interest income	**5,856**	5,405	**11,697**	10,845
Provision for credit losses	**52**	151	**135**	4
Net interest income after provision for credit losses	**5,804**	5,254	**11,562**	10,841
NONINTEREST INCOME				
Financially related services income	**1**	4	**3**	8
Loan fees	**57**	6	**75**	8
Patronage distribution from Farm Credit institutions	**704**	700	**1,392**	1,392
Farm Credit Insurance Fund distribution	**-**	-	**188**	186
Mineral income	**92**	110	**207**	274
Other noninterest income	**29**	14	**109**	70
Total noninterest income	**883**	834	**1,974**	1,938
NONINTEREST EXPENSE				
Salaries and employee benefits	**2,164**	1,600	**4,331**	3,116
Occupancy and equipment	**145**	173	**307**	338
Purchased services from AgVantis, Inc.	**570**	517	**1,140**	1,034
Farm Credit Insurance Fund premium	**140**	140	**274**	276
Merger Implementation Costs	**10**	-	**10**	-
Supervisory and examination costs	**75**	70	**150**	140
Other noninterest expense	**578**	732	**1,520**	1,535
Total noninterest expense	**3,682**	3,232	**7,732**	6,439
Net income	**3,005**	2,856	**5,804**	6,340
COMPREHENSIVE INCOME				
Amortization of retirement costs	**4**	2	**8**	4
Total comprehensive income	**$ 3,009**	$ 2,858	**$ 5,812**	$ 6,344

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
Balance at December 31, 2018	$ 1,966	$ 33,619	$ 125,521	$ (46)	$ 161,060
Comprehensive income			6,340	4	6,344
Stock issued	104				104
Stock retired	(72)				(72)
Balance at June 30, 2019	$ 1,998	$ 33,619	$ 131,861	$ (42)	$ 167,436
Balance at December 31, 2019	$ 2,026	$ 33,619	$ 134,095	$ (81)	$ 169,659
Comprehensive income			5,804	8	5,812
Stock issued	96				96
Stock retired	(79)				(79)
Balance at June 30, 2020	**$ 2,043**	**$ 33,619**	**$ 139,899**	**$ (73)**	**$ 175,488**

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

NOTES TO FINANCIAL STATEMENTS
(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, 2019, are contained in the 2019 Annual Report to Shareholders. These unaudited second quarter 2020 financial statements should be read in conjunction with the 2019 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, 2019, as contained in the 2019 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, 2020. Descriptions of the significant accounting policies are included in the 2019 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.

Recently Adopted or Issued Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on its financial condition and its results of operations.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled “Simplifying the Accounting for Income Taxes.” This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the institution adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the institution’s financial condition or results of operations.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption was permitted and an entity was permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures.

In June 2016, the 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 was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its financial condition and its results of operations.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

(dollars in thousands)	**June 30, 2020**	December 31, 2019
Real estate mortgage	**$ 579,968**	$ 558,498
Production and intermediate-term	**296,842**	303,683
Agribusiness	**18,397**	17,628
Rural Infrastructure	**-**	357
Rural residential real estate	**872**	846
Agricultural export finance	**7,400**	-
Total Loans	**$ 903,479**	$ 881,012

The Association purchases and 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, 2020:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(dollars in thousands)	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 33,788	$ 29,977	$ 2,266	$ -	$ 36,054	$ 29,977
Production and intermediate-term	37,531	7,223	-	-	37,531	7,223
Agribusiness	13,739	-	-	-	13,739	-
Agricultural export finance	7,400	-	-	-	7,400	-
Total	$ 92,458	$ 37,200	$ 2,266	$ -	$ 94,724	$ 37,200

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality.
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable.
- Loss – assets are considered uncollectible.

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, 2020	December 31, 2019
Real estate mortgage		
Acceptable	**96.47%**	95.71%
OAEM	**1.52%**	1.78%
Substandard	**2.01%**	2.51%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**91.18%**	90.41%
OAEM	**5.51%**	5.84%
Substandard	**3.31%**	3.75%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**100.00%**	99.76%
Substandard	**-**	0.24%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**-**	100.00%
Total	**-**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Agricultural export finance		
Acceptable	**100.00%**	-
Total	**100.00%**	-
Total Loans		
Acceptable	**94.83%**	93.97%
OAEM	**2.79%**	3.14%
Substandard	**2.38%**	2.89%
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:

(dollars in thousands)	**June 30, 2020**	December 31, 2019
Nonaccrual loans		
Production and intermediate-term	**$ 54**	$ 53
Total nonaccrual loans	**$ 54**	$ 53
Accruing restructured loans		
Real estate mortgage	**$ 89**	$ 91
Total accruing restructured loans	**$ 89**	$ 91
Accruing loans 90 days past due		
Real estate mortgage	**$ 961**	$ 927
Total accruing loans 90 days past due	**$ 961**	$ 927
Total impaired loans	**$ 1,104**	$ 1,071

The Association had no other property owned for the periods presented.

Additional impaired loan information is as follows:

	June 30, 2020			December 31, 2019		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with a related allowance for loan losses:						
Production and intermediate-term	**$ 51**	**$ 59**	**$ 6**	$ 49	$ 58	$ 5
Total	**$ 51**	**$ 59**	**$ 6**	$ 49	$ 58	$ 5
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	**$ 1,050**	**$ 927**		$ 1,018	$ 929	
Production and intermediate-term	**3**	**1,367**		4	1,367	
Total	**$ 1,053**	**$ 2,294**		$ 1,022	$ 2,296	
Total impaired loans:						
Real estate mortgage	**$ 1,050**	**$ 927**	**$ -**	$ 1,018	$ 929	$ -
Production and intermediate-term	**54**	**1,426**	**6**	53	1,425	5
Total	**$ 1,104**	**$ 2,353**	**$ 6**	$ 1,071	$ 2,354	$ 5

Note: The recorded investment in the loan 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 loan receivable.

(dollars in thousands)	**For the Three Months Ended June 30, 2020** Average Impaired Loans	**For the Three Months Ended June 30, 2020** Interest Income Recognized	For the Three Months Ended June 30, 2019 Average Impaired Loans	For the Three Months Ended June 30, 2019 Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Production and intermediate-term	**$ 52**	**$ -**	$ 830	$ -
Total	**$ 52**	**$ -**	$ 830	$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 1,041**	**$ 17**	$ 215	$ 2
Production and intermediate-term	**3**	**-**	9	1
Total	**$ 1,044**	**$ 17**	$ 224	$ 3
Total impaired loans:				
Real estate mortgage	**$ 1,041**	**$ 17**	$ 215	$ 2
Production and intermediate-term	**55**	**-**	839	1
Total	**$ 1,096**	**$ 17**	$ 1,054	$ 3

(dollars in thousands)	**For the Six Months Ended June 30, 2020** Average Impaired Loans	**For the Six Months Ended June 30, 2020** Interest Income Recognized	For the Six Months Ended June 30, 2019 Average Impaired Loans	For the Six Months Ended June 30, 2019 Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Production and intermediate-term	**$ 51**	**$ -**	$ 840	$ -
Total	**$ 51**	**$ -**	$ 840	$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	**$ 1,033**	**$ 33**	$ 218	$ 6
Production and intermediate-term	**3**	**-**	2	1
Total	**$ 1,036**	**$ 33**	$ 220	$ 7
Total impaired loans:				
Real estate mortgage	**$ 1,033**	**$ 33**	$ 218	$ 6
Production and intermediate-term	**54**	**-**	842	1
Total	**$ 1,087**	**$ 33**	$ 1,060	$ 7

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

June 30, 2020 *(dollars in thousands)*	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
Real estate mortgage	$ 3,826	$ 961	$ 4,787	$ 587,472	$ 592,259	$ 961
Production and intermediate-term	215	-	215	303,459	303,674	-
Agribusiness	-	-	-	18,436	18,436	-
Rural residential real estate	112	-	112	766	878	-
Agricultural export finance	-	-	-	7,421	7,421	-
Total	$ 4,153	$ 961	$ 5,114	$ 917,554	$ 922,668	$ 961

December 31, 2019 *(dollars in thousands)*	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
Real estate mortgage	$ 730	$ 927	$ 1,657	$ 566,653	$ 568,310	$ 927
Production and intermediate-term	-	-	-	309,694	309,694	-
Agribusiness	-	-	-	17,708	17,708	-
Rural infrastructure	-	-	-	357	357	-
Rural residential real estate	-	-	-	856	856	-
Total	$ 730	$ 927	$ 1,657	$ 895,268	$ 896,925	$ 927

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

(dollars in thousands)	Balance at March 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2020
Real estate mortgage	$ 370	$ -	$ -	$ 13	$ 383
Production and intermediate-term	1,595	-	1	(68)	1,528
Agribusiness	33	-	-	(17)	16
Rural infrastructure	3	-	-	(3)	-
Total	$ 2,001	$ -	$ 1	$ (75)	$ 1,927

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2020
Real estate mortgage	$ 357	$ -	$ -	$ 26	$ 383
Production and intermediate-term	1,471	16	3	70	1,528
Agribusiness	30	-	-	(14)	16
Rural infrastructure	4	-	-	(4)	-
Total	$ 1,862	$ 16	$ 3	$ 78	$ 1,927

(dollars in thousands)	Balance at March 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2019
Real estate mortgage	$ 347	$ -	$ -	$ 17	$ 364
Production and intermediate-term	1,528	-	1	2	1,531
Agribusiness	23	-	-	1	24
Rural infrastructure	7	-	-	(3)	4
Total	$ 1,905	$ -	$ 1	$ 17	$ 1,923

(dollars in thousands)	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2019
Real estate mortgage	$ 365	$ -	$ -	$ (1)	$ 364
Production and intermediate-term	1,506	10	30	5	1,531
Agribusiness	31	-	-	(7)	24
Rural infrastructure	7	-	-	(3)	4
Total	$ 1,909	$ 10	$ 30	$ (6)	$ 1,923

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	
(dollars in thousands)	**2020**	2019	**2020**	2019
Balance at beginning of period	**$ 375**	$ 347	**$ 445**	$ 471
Provision for reserve for unfunded commitments	**127**	134	**57**	10
Total	**$ 502**	$ 481	**$ 502**	$ 481

Additional information on the allowance for loan losses follows:

(dollars in thousands)	Allowance for Loan Losses Ending Balance at June 30, 2020		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2020	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 383	$ 1,050	$ 591,209
Production and intermediate-term	6	1,522	54	303,620
Agribusiness	-	16	-	18,436
Rural residential real estate	-	-	-	878
Agricultural export finance	-	-	-	7,421
Total	$ 6	$ 1,921	$ 1,104	$ 921,564

(dollars in thousands)	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ -	$ 357	$ 1,018	$ 567,292
Production and intermediate-term	5	1,466	53	309,641
Agribusiness	-	30	-	17,708
Rural infrastructure	-	4	-	357
Rural residential real estate	-	-	-	856
Total	$ 5	$ 1,857	$ 1,071	$ 895,854

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, 2020. The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first six months of 2020 and 2019. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at June 30, 2020 and December 31, 2019.

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.

(dollars in thousands)	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2020	December 31, 2019	**June 30, 2020**	December 31, 2019
Real estate mortgage	**$ 89**	$ 91	**$ -**	$ -
Total	**$ 89**	$ 91	**$ -**	$ -

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

NOTE 3 - CAPITAL

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

	As of June 30, 2020	As of December 31, 2019	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	16.25%	16.96%	4.5%	2.5%	7.0%
Tier 1 capital ratio	16.25%	16.96%	6.0%	2.5%	8.5%
Total capital ratio	16.51%	17.23%	8.0%	2.5%	10.5%
Permanent capital ratio	16.28%	16.99%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	15.37%	16.02%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	16.92%	17.34%	1.5%	-	1.5%

If capital ratios fall below the regulatory minimum plus 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 following tables present the activity in the accumulated other comprehensive income/loss, net of tax by component:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(dollars in thousand)	**2020**	2019	**2020**	2019
Pension and other benefit plans:				
Beginning balance	**$ (77)**	$ (44)	**$ (81)**	$ (46)
Amounts reclassified from accumulated other comprehensive loss	**4**	2	**8**	4
Net current period other comprehensive income	**4**	2	**8**	4
Ending balance	**$ (73)**	$ (42)	**$ (73)**	$ (42)

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		
(dollars in thousands)	**2020**	2019	
Pension and other benefit plans:			
Net actuarial income	**$ 4**	$ 2	Salaries and employee benefits
Total reclassifications	**$ 4**	$ 2	

	Amount Reclassified from Accumulated Other Comprehensive Income/Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Six Months Ended June 30		
(dollars in thousands)	**2020**	2019	
Pension and other benefit plans:			
Net actuarial income	**$ 8**	$ 4	Salaries and employee benefits
Total reclassifications	**$ 8**	$ 4	

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 of the 2019 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
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	
Assets held in nonqualified benefits trusts				
June 30, 2020	**$ 587**	**$ -**	**$ -**	**$ 587**
December 31, 2019	$ 591	$ -	$ -	$ 591

The Association had no liabilities measured at fair value on a recurring basis at June 30, 2020 or December 31, 2019.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	
June 30, 2020				
Loans	**$ -**	**$ -**	**$ 45**	**$ 45**
December 31, 2019				
Loans	$ -	$ -	$ 45	$ 45

With regard to impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and takes into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

The Association had no liabilities measured at fair value on a non-recurring basis at June 30, 2020 or December 31, 2019.

Valuation Techniques

As more fully discussed in Note 2 of the 2019 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.

Loans Evaluated for Impairment

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 hierarchy if the process uses independent appraisals and other market-based information.

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 3, 2020 which is the date the financial statements were issued, and no material subsequent events were identified.