2012

ANNUAL REPORT

FARM CREDIT OF CENTRAL OKLAHOMA, ACA

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2012	2011	2010	2009	2008
Statement of Condition Data					
Loans	**$ 117,925**	$ 113,165	$ 105,478	$ 99,862	$ 93,104
Less allowance for loan losses	**209**	295	228	306	430
Net loans	**117,716**	112,870	105,250	99,556	92,674
Investment in CoBank, ACB	**3,588**	NA	NA	NA	NA
Investment in U.S. AgBank, FCB	**NA**	3,349	2,224	2,224	2,224
Other property owned	**860**	-	-	426	-
Other assets	**2,697**	2,734	2,277	2,670	2,443
Total assets	**$ 124,861**	$ 118,953	$ 109,751	$ 104,876	$ 97,341
Obligations with maturities of one year or less	**$ 1,379**	$ 1,557	$ 788	$ 824	$ 862
Obligations with maturities longer than one year	**91,736**	86,903	81,077	77,100	69,714
Total liabilities	**93,115**	88,460	81,865	77,924	70,576
Protected borrower stock	**-**	1	1	1	6
Capital stock	**612**	612	606	597	593
Unallocated retained earnings	**31,148**	29,904	27,310	26,394	26,218
Accumulated other comprehensive income/(loss)	**(14)**	(24)	(31)	(40)	(52)
Total shareholders' equity	**31,746**	30,493	27,886	26,952	26,765
Total liabilities and shareholders' equity	**$ 124,861**	$ 118,953	$ 109,751	$ 104,876	$ 97,341

	For the Year Ended December 31				
	2012	2011	2010	2009	2008
Statement of Income Data					
Net interest income	**$ 3,240**	$ 2,723	$ 2,634	$ 2,611	$ 2,592
Patronage distribution from Farm Credit institutions	**461**	1,062	154	52	414
Tax-free recapitalization distribution due to AgBank merger	**-**	1,088	-	-	-
Provision for loan losses/(Loan loss reversal)	**65**	67	(78)	287	133
Noninterest expense, net	**1,762**	1,820	1,585	1,704	1,553
Net income	**$ 1,874**	$ 2,986	$ 1,281	$ 672	$ 1,320
Comprehensive income	**$ 1,884**	$ 2,993	$ 1,290	$ 684	$ 1,228

Key Financial Ratios					
For the Year					
Return on average assets	**1.54%**	2.64%	1.20%	0.67%	1.42%
Return on average shareholders' equity	**6.06%**	10.50%	4.68%	2.51%	4.99%
Net interest income as a percentage of average earning assets	**2.81%**	2.50%	2.59%	2.73%	2.95%
Net charge-offs as a percentage of average net loans	**0.13%**	-	-	0.43%	-
At Year End					
Shareholders' equity as a percentage of total assets	**25.43%**	25.63%	25.41%	25.70%	27.50%
Debt as a ratio to shareholders' equity	**2.93:1**	2.90:1	2.94:1	2.89:1	2.64:1
Allowance for loan losses as a percentage of loans	**0.18%**	0.26%	0.22%	0.31%	0.46%
Permanent capital ratio	**23.60%**	23.31%	24.54%	24.90%	27.14%
Total surplus ratio	**23.09%**	22.77%	23.97%	24.31%	26.51%
Core surplus ratio	**23.06%**	22.77%	23.73%	23.79%	25.62%
Net Income Distribution					
Cash patronage distributions paid	**$ 630**	$ 392	$ 365	$ 496	$ 465
Cash patronage declared	**$ 630**	$ 392	$ 365	$ 496	$ 465

Management's Discussion and Analysis

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Central Oklahoma, ACA for the year ended December 31, 2012. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The accompanying financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.farmcreditloans.com, or upon request. We are located at 509 W. Georgia Ave., Anadarko, Oklahoma 73005 or may be contacted by calling (405) 247-2421.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2012, we are one of 82 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of central and south central Oklahoma. The counties in our territory are listed in Note 1 of the accompanying financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance and vehicle and equipment leasing through Farm Credit Leasing Services Corporation. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. Prior to its merger with CoBank on January 1, 2012, U.S. AgBank, FCB (AgBank) was our funding bank. CoBank, its related associations, and AgVantis, Inc. (AgVantis), a technology service provider, are referred to as the District.

Effective January 1, 2012, AgBank merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB. CoBank is headquartered just outside Denver, Colorado. CoBank had total assets of $92.48 billion and capital of $6.44 billion at December 31, 2012. As a result of the merger, our investment in AgBank stock was converted to

CoBank stock. For purposes throughout this disclosure, "the Bank" refers to AgBank for periods prior to January 1, 2012 and to CoBank for periods subsequent to December 31, 2011. We, along with the borrower's investment in our Association are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports and the AgBank District reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 509 W. Georgia Ave., Anadarko, Oklahoma 73005 or by calling (405) 247-2421. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current Services Agreement with AgVantis expires on December 31, 2013. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

For many years, agriculture experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity and continued robust agricultural environment, our financial results have been positively impacted. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. In 2009 and 2010, certain agricultural sectors experienced significant stress, which negatively impacted credit quality measures. Drought conditions in 2012 in our territory may impact grain and cattle producers in future years. Overall conditions were satisfactory in 2012, but dairy continues to reflect some stress with higher feed cost narrowing the margins. The negative impact to us from these less favorable conditions is somewhat lessened by our geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers. Our service area extends across a diverse agricultural region of central and south central Oklahoma. The distinctive location of the territory places it between the Norman-Oklahoma City area and Lawton, two of the largest metropolitan areas in Oklahoma. We manage a very diverse agriculture loan portfolio in a five county territory. The significant commodities in our loan portfolio are cattle and wheat. The majority of farmers and ranchers in the loan portfolio are further diversified by producing two or more agriculture commodities. The diversified farming operations and off-farm employment opportunities in our territory provide a level of stability to the farmers and ranchers we serve.

During 2012, the economic conditions in our region have remained reasonably stable. In most instances, Oklahoma did not experience the full weight of the national downturn and has endured the past few years with limited economic impact. Home and commercial real estate values have remained effectively stable and unemployment has continued well below the national average. Agriculture real estate and other asset values have improved or remained stable over the past year which has also created a positive influence on the overall state economy. Land values are expected to remain on firm economic footing but not expected to realize the appreciation rates of the recent past. However, extended periods of lower farm income, general stress in the agriculture or local economy, or a reduction, change or removal of government support programs could put negative pressure on area real estate prices.

The two significant commodities locally, wheat and cattle, have had mixed returns over the past several years. Overall, beef production and prices have been very respectable over the year. Beef prices have remained strong throughout the year and most area cow/calf and stocker producers are seeing profitable operations.

The prolonged drought conditions have caused pasture conditions to dwindle and limited water in some areas, which will continue to put pressure on local producers and cattle numbers. Many ranchers anticipate replacing the herd as conditions improve, but limited supply could make the replacement cost extremely high. Local wheat producers have benefited from respectable prices at the farm level with average production in most areas of the servicing area for 2012. The effects of limited production the past few years have put pressure on producers. In 2011 the drought during the critical growing season resulted in very poor production in most areas, following a near total disaster for most area producers in 2009. The only positive to the limited production for those years was most crops were insured, which provided somewhat of a safety net for area farmers. As compared to the same point in time a year ago, the crop is in adequate condition to provide wheat pasture production for the short term. However, continued moisture is required for sustained stocker production. Grain production for 2013 will be dependent on the late winter and early spring weather. As mentioned, at this point the crop is in decent shape for short-term forage production with grain production still questionable. Wheat prices are expected to remain at adequate levels to sustain profitable operations should adequate production develop.

Local dairies continue to struggle even with improved milk prices as the result of increased production cost. The drought conditions the past few years have had a major impact on hay production, thus adding to the already increasing input cost associated with dairies. Although milk prices have somewhat improved compared to the past, increased production costs, feed in particular, continue to impact the profitability of even the most efficient dairies.

LOAN PORTFOLIO

Total loans outstanding were $117.9 million at December 31, 2012, an increase of $4.7 million, or 4.21%, from loans at December 31, 2011 of $113.2 million, and an increase of $12.4 million, or 11.80%, from loans at December 31, 2010 of $105.5 million. The increase in loans was primarily due to the increase in agribusiness and communication portfolios as a result of increased participation volume with CoBank and the addition of two large real estate mortgage loans. However, total participation purchased loan volume declined due to payoffs. The types of loans outstanding at December 31 are reflected in the following table.

	2012		2011		2010	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$100,208**	**85.0%**	$ 99,227	87.7%	$ 90,492	85.8%
Production and intermediate-term loans	**10,788**	**9.1%**	10,043	8.9%	11,121	10.6%
Agribusiness loans to:						
Cooperatives	**1,000**	**0.8%**	–	–	–	–
Processing and marketing	**1,716**	**1.5%**	848	0.7%	961	0.9%
Farm related business	–	–	102	0.1%	150	0.1%
Communication	**1,998**	**1.7%**	–	–	–	–
Rural residential real estate loans	**2,215**	**1.9 %**	2,945	2.6%	2,754	2.6%
Total	**$117,925**	**100.0%**	$113,165	100.0%	$105,478	100.0%

Real estate mortgage loans outstanding increased to $100.2 million, compared with $99.2 million at year-end 2011, primarily due to the origination of new loans of approximately $22 million that exceeded payoffs and repayments. We originated two larger credits greater than $1 million that contributed towards the overall growth in this segment of the portfolio. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 7.4% to $10.8 million compared with 2011 loans of $10.0 million, primarily due to the addition of new loan volume primarily to existing customers, a slight increase in seasonal draws on revolving loans that exceeded payoffs and paydowns on existing loan volume. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower’s normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Increases were also noted in agribusiness and communication loans outstanding. At December 31, 2012 all agribusiness loans and communication loans outstanding were loan participations purchased.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size as illustrated in the following four tables.

We purchase loan participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with lending limits we have established.

Our volume of participations purchased and sold as of December 31 follows.

(dollars in thousands)	**2012**	2011	2010
Participations purchased	**$ 9,442**	$ 9,804	$ 9,492
Participations sold	**$ 6,697**	$ 4,762	$ 3,623

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loan participations outside our territory, which are included in other Oklahoma counties and other states in the following table.

	2012	2011	2010
Caddo	**27.29%**	24.74%	24.79%
Cleveland	**4.95%**	5.54%	6.03%
Comanche	**11.60%**	12.05%	11.28%
Grady	**19.83%**	19.62%	19.51%
McClain	**8.80%**	8.71%	8.77%
Other Oklahoma counties	**15.58%**	18.81%	20.25%
Other states	**11.95%**	10.53%	9.37%
Total	**100.00%**	100.00%	100.00%

We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, Kansas and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security or location of a headquarters. This Agreement can be terminated upon the earlier to occur of:

1) the time when all but one association has withdrawn as a party to the Agreement; or
2) December 31, 2025; or
3) when requested by FCA.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

	December 31		
SIC Category	**2012**	2011	2010
Beef	**57.12%**	56.24%	52.57%
Landlords	**10.17%**	11.49%	11.60%
Wheat	**8.81%**	8.30%	9.05%
Hay crops	**5.29%**	4.98%	3.97%
Peanuts	**3.89%**	4.04%	3.93%
Horses	**2.73%**	2.43%	2.53%
Dairy	**2.37%**	3.52%	4.00%
Buffalo	**1.05%**	1.13%	1.39%
Biofuels	**0.59%**	0.73%	0.89%
Other	**7.98%**	7.14%	10.07%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of beef, landlord and wheat producers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our loan volume at December 31, 2012 and 2011, approximately 58% consists of borrowers with income not solely from agricultural sources, compared with 55% for 2010.

The principal balance outstanding at December 31, 2012 for loans $250 thousand or less accounted for 53.16% of loan volume and 89.28% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loan principal by dollar size at December 31.

(dollars in thousands)	**2012** Amount outstanding	**2012** Number of loans	2011 Amount outstanding	2011 Number of loans	2010 Amount outstanding	2010 Number of loans
$1 - $250	**$ 62,694**	**833**	$ 62,108	837	$ 60,847	840
$251 - $500	**22,706**	**64**	22,548	63	21,637	61
$501 - $1,000	**20,116**	**28**	16,878	24	15,252	22
$1,001 - $5,000	**12,409**	**8**	11,631	8	7,742	5
Total	**$ 117,925**	**933**	$ 113,165	932	$ 105,478	928

Of our loans outstanding 17.69% are attributable to 10 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $160 thousand at year-end 2012, $174 thousand at year-end 2011 and $187 thousand at year-end 2010 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2012.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 - 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 5,684	$ 2,113	$ 100	$ 4,477	$ 12,374

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows.

(dollars in thousands)	**2012**	2011	2010
Nonaccrual loans:			
Real estate mortgage	**$ 101**	$ 1,282	$ 114
Agribusiness	**239**	–	–
Total nonaccrual loans	**340**	1,282	114
Accruing restructured loans:			
Real estate mortgage	**73**	83	92
Rural residential real estate	**–**	–	6
Total accruing restructured loans	**73**	83	98
Total impaired loans	**413**	1,365	212
Other property owned	**860**	–	–
Total high risk assets	**$ 1,273**	$ 1,365	$ 212
Nonaccrual loans to total loans	**0.29%**	1.13%	0.11%
Impaired loans to total loans	**0.35%**	1.21%	0.20%
High risk assets to total loans	**1.08%**	1.21%	0.20%
High risk assets to total shareholders' equity	**4.01%**	4.48%	0.76%

We had no loans classified as 90 days past due still accruing interest for the years presented.

Total high risk assets decreased $92 thousand, or 6.74%, to $1.3 million at December 31, 2012 compared with year-end 2011. Contributing to the decrease in our high risk assets was the decrease in nonaccrual loans, offset with the increase in other property owned.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $942 thousand compared with December 31, 2011 due to acquisition of collateral for the collection of a nonaccrual account and partial charge-off of one loan, offset by the transfer to nonaccrual of loans to two customers. The loans to these two customers comprised 100% of our total nonaccrual volume at December 31, 2012. For the years presented, we had no nonaccrual loans current as to principal and interest, no cash basis nonaccrual loans and no restructured loans in nonaccrual status. Accruing restructured loans, including related accrued interest, decreased $10 thousand during 2012 primarily as a result of repayments. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had other property owned of $860 thousand at December 31, 2012, compared with none at December 31, 2011 and 2010. The other property owned consists of 292 acres of improved land that was acquired through foreclosure during the second quarter of 2012.

High risk assets are expected to remain relatively stable or even slightly decrease with the anticipated disposal of other property owned over the next year. This decline could be offset somewhat with challenges in certain sectors of agriculture resulting from the prolonged drought in the servicing area should it continue over the near term.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Below are the classification definitions.

- 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 as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31.

	2012	2011	2010
Acceptable	**98.23%**	98.20%	96.14%
OAEM	**0.57%**	0.26%	1.61%
Substandard	**1.20%**	1.54%	2.25%
Total	**100.00%**	100.00%	100.00%

During 2012, overall credit quality improved. Loans classified as Acceptable and OAEM were 98.80% at December 31, 2012, 98.46% at December 31, 2011 and 97.75% at December 31, 2010. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. Less favorable economic conditions could lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased, however, remained at a low level of 0.17% at December 31, 2012, compared with 0.12% at December 31, 2011 and 0.19% at December 31, 2010.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31.

(dollars in thousands)	**2012**	2011	2010
Balance at beginning of year	**$ 295**	$ 228	$ 306
Charge-offs:			
Real estate mortgage	**151**	–	–
Provision for loan losses/(Loan loss reversal)	**65**	67	(78)
Balance at December 31	**$ 209**	$ 295	$ 228
Net charge-offs to average net loans	**0.13%**	–	–

The following table presents the allowance for loan losses by loan type as of December 31.

(dollars in thousands)	**2012**	2011	2010
Real estate mortgage	**$ 115**	$ 220	$ 79
Production and intermediate-term	**42**	65	76
Agribusiness	**50**	9	72
Communication	**1**	–	–
Rural residential real estate	**1**	1	1
Total	**$ 209**	$ 295	$ 228

The allowance for loan losses decreased $86 thousand from December 31, 2011, to $209 thousand at December 31, 2012. The decrease in allowance for loan losses was primarily due to charge-offs of $151 thousand that were recorded during 2012 related to a single exposure. This was somewhat offset by the provision for loan losses of $65 thousand that was recorded due to potential risk in certain segments of the portfolio as the result of continued drought conditions, offset by a decrease in specific reserve held for a single loan, which was acquired during the second quarter of 2012. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2011, our allowance for loan losses increased $67 thousand primarily due to increase in specific allowance for one loan with a specific reserve amount of $125, offset by decreased risk in certain loans during the year. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2012	2011	2010
Allowance as a percentage of:			
Loans	**0.18%**	0.26%	0.22%
Impaired loans	**50.61%**	21.63%	107.55%
Nonaccrual loans	**61.47%**	23.01%	200.00%

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. Our YBS program mission states: Farm Credit of Central Oklahoma will endeavor to develop and expand the young, beginning and small farmer/rancher market in Central Oklahoma through community involvement, outreach activities, promotion, related services and innovative lending strategies. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2007 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	**2012**	2011	2010
Young	6%	**20%**	18%	20%
Beginning	31%	**39%**	35%	43%
Small	99%	**81%**	71%	77%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information will be utilized as it is the best comparative information available.

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

The demographics of our territory provide the possibility to increase market share of loans to YBS farmers and ranchers, especially the beginning and small farmer and rancher. To take advantage of the opportunity, we sponsored and participated in various outreach and leadership activities during 2012 which either promote or associate with prospective YBS customers. Sponsorships and support during the year included both local and state youth agriculture programs and various local adult agriculture programs. In addition, we participate in the Oklahoma Farm Credit Marketing Group which sponsors and supports a variety of youth and adult organizations in a cooperative, statewide effort. Involvement with these types of groups, organizations and activities has become our “best practice” for attracting and cultivating YBS customers. Referrals from existing customers, neighboring system institutions, commercial banks and government agencies is another successful approach to marketing YBS customers. Also, we have included the YBS definition and general YBS information on our website which has become the preferred information delivery system for many people, especially the potential YBS customer.

Semi-annual reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress in servicing this segment of the market which is a percentage goal for new loans made each year to qualifying YBS farmers and ranchers. The established goal is based on the number of qualifying new loans made each year, by category (young, beginning and small) to total loans made during the year.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in our territory.

The following table illustrates the 2012 goals established and the actual performance for the year.

	2012 Goal	**2012 Actual**
Young	10%	21%
Beginning	25%	37%
Small	50%	78%

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize established loan programs, underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate. This Model also serves as the basis for economic capital modeling.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category, each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; >15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; >20% to 25% range of economic loss
- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2012, we recorded net income of $1.9 million, compared with $3.0 million in 2011, and $1.3 million in 2010. The decrease in 2012 was primarily due to a decrease in patronage income and the one-time recapitalization distribution from AgBank recorded in 2011 as the result of the merger of AgBank and CoBank January 1, 2012. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2012 vs. 2011**	2011 vs. 2010
Net income, prior year	**$ 2,986**	$ 1,281
Increase/(Decrease) from changes in:		
Interest income	**71**	(83)
Interest expense	**446**	172
Net interest income	**517**	89
Provision for loan losses	**2**	(145)
Noninterest income	**(1,372)**	1,888
Noninterest expense	**(259)**	(127)
Total (decrease)/increase in net income	**(1,112)**	1,705
Net income, current year	**$ 1,874**	$ 2,986

Return on average assets decreased to 1.54% in 2012 from 2.64% in 2011, and return on average shareholders' equity decreased to 6.06% in 2012 from 10.50% in 2011, primarily as a result of decrease in noninterest income, offset slightly by an increase in net interest income.

Net Interest Income

Net interest income for 2012 was $3.2 million compared with $2.7 million for 2011 and $2.6 million for 2010. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income and net interest margin was primarily due to decreased cost of funds and increased loan volume. Also contributing to the increase in net interest income and loan spreads was a change in pricing methodology on new loans and conversions. The following table provides an analysis of the individual components of the change in net interest income during 2012 and 2011.

(dollars in thousands)	**2012 vs. 2011**	2011 vs. 2010
Net interest income, prior year	**$ 2,723**	$ 2,634
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(289)**	(469)
Interest rates paid	**640**	380
Volume of interest-bearing assets and liabilities	**152**	176
Interest income on nonaccrual loans	**14**	2
Increase in net interest income	**517**	89
Net interest income, current year	**$ 3,240**	$ 2,723

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2012	2011	2010
Net interest margin	**2.81%**	2.50%	2.59%
Interest rate on:			
Average loan volume	**5.25%**	5.50%	5.96%
Average debt	**3.14%**	3.91%	4.40%
Interest rate spread	**2.11%**	1.59%	1.56%

The increase in interest rate spread of 52 basis points resulted from a 77 basis point decrease in interest rates paid on average debt and a 25 basis point decrease in interest rates earned on average loan volume. The increase in net interest margin was offset by lower earnings on our own capital. The spread was positively impacted in 2011 by a 10 basis point reduction in rates AgBank charged the Association. Net interest income was negatively impacted due to lower interest rate earnings on our own funds.

Provision for Loan Losses/(Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable losses in our loan portfolio. We recorded net provision for loan losses of $65 thousand in 2012, compared with $67 thousand in 2011 and net loan loss reversal of $78 thousand in 2010. The provision for loan losses recorded during 2012 was primarily due to potential risk in certain segments of the portfolio as the result of continued drought conditions in the loan servicing area offset by a decrease in specific reserve. The provision for loan losses recorded during 2011 was primarily due to establishing a specific reserve of $125 thousand, offset by decreased risk in certain loans during the year. The loan loss reversals recorded during 2010 were primarily due to decreased risk exposure on certain loans.

Noninterest Income

During 2012, we recorded noninterest income of $799 thousand, compared with $2.2 million in 2011 and $283 thousand in 2010. Patronage distributions from our funding Bank are our primary source of noninterest income. Beginning in 2012, patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage will be distributed in cash. Patronage earned from CoBank was $401 thousand in 2012. In March 2011, we received cash patronage from AgBank as a result of its 2010 earnings. AgBank also declared patronage in December 2011, prior to its merger with CoBank, on its 2011 earnings. This resulted in AgBank patronage income of $1.1 million in 2011. Cash patronage received from AgBank was $154 thousand in 2010. AgBank patronage was paid in cash. Pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction in order to align all associations with CoBank's stock investment requirement. The recapitalization occurred on December 31, 2011 and involved the tax-free issuance of AgBank common stock to each association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such association. The attributed surplus was a Bank equity representing prior year earnings. The exchange resulted in non-interest income of $1.1 million being recognized in 2011 and a corresponding increase in the Investment in Bank. This non-cash income would only be available for patronage to our members upon a cash redemption of the stock by CoBank, which redemption would likely be remote. On January 1, 2012, the stock in AgBank was converted to CoBank stock as a result of the merger.

Beginning in 2012, we also received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2012. We received a Notice of Allocation with our total patronage of $56 thousand, which includes cash patronage of $11 thousand. The balance of the allocation is recorded in other assets. This patronage program replaced the previous program whereby we received a rebate from AgVantis which reduced the cost of our purchased services from AgVantis. Additionally, we received a cash patronage of $4 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. Patronage from these two entities and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received mineral income of $175 thousand during 2012, which is distributed to us quarterly by the Bank. In 2011, mineral income was received from the Bank as a priority patronage and included as part of the Bank patronage income received annually.

During 2012 and 2010, we received from Farm Credit System Insurance Company (FCSIC) a distribution of $103 thousand and $99 thousand, respectively, representing our allocated portion of the excess amount in the System's insurance fund above the 2% secure base amount. No such distribution was made in 2011.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2012 were $15 thousand, an increase of $13 thousand from 2011, primarily due to an increase in loan conversion fees.

Noninterest Expense

Noninterest expense for 2012 increased $259 thousand, or 14.07%, to $2.1 million compared with 2011. Noninterest expense for each of the three years ended December 31 is summarized below:

				Percent of Change	
(dollars in thousands)	**2012**	2011	2010	**2012/2011**	2011/2010
Salaries & employee benefits	**$ 1,175**	$ 1,039	$ 959	**13.09%**	8.34%
Occupancy & equipment	**56**	59	51	**(5.09%)**	15.69%
Purchased services from AgVantis	**323**	225	196	**43.56%**	14.80%
Supervisory & examination costs	**51**	49	45	**4.08%**	8.89%
Other	**423**	413	382	**2.42%**	8.12%
Total operating expense	**2,028**	1,785	1,633	**13.61%**	9.31%
Losses on other property owned, net	**28**	1	38	**2,700.00%**	(97.37%)
Farm Credit Insurance Fund premium	**44**	55	43	**(20.00%)**	27.91%
Total noninterest expense	**$ 2,100**	$ 1,841	$ 1,714	**14.07%**	7.41%

For the year ended December 31, 2012, total operating expense increased $243 thousand, or 13.61%, compared with the year ended December 31, 2011, primarily due to increases in salaries and benefits as the result of normal salary increases along with an increase in pension expense. Increases in purchased services from AgVantis, our technology provider, were noted during 2012 compared to the same period 2011 primarily due to increases in charges along with a change in the payment of AgVantis patronage for 2012 recorded as income rather than an expense reduction. Farm Credit Insurance Fund premium decreased $11 thousand to $44 thousand due to a decrease in the premium rate and offset by an increase in volume. Premium rates were 5 basis points during 2012 compared with 6 basis points in 2011 and 5 basis points during 2010. Losses on other property owned of $28 thousand were recorded related to operating expenses associated with the held property.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) which was extended through May 31, 2013 with the merger of AgBank and CoBank on January 1, 2012. We expect renewal of the GFA at that time. The annual average principal balance of the note payable to CoBank was $89.1 million in 2012. The annual average principal balance of the note payable to AgBank was $82.9 million in 2011 and $77.9 million in 2010.

We plan to continue to fund lending operations through the utilization of our borrowing relationship with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess funds with CoBank at a fixed rate as a part of CoBank's Association Equity Positioning Program (AEPP). This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Asset/Liability Committee determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2012 totaled $31.7 million, compared with $30.5 million at December 31, 2011 and $27.9 million at December 31, 2010. The increase of $1.3 million in shareholders' equity reflects net income and a decrease in accumulated other comprehensive loss, partially offset by patronage refunds and net stock retirements. Our capital position is reflected in the following ratio comparisons.

	2012	2011	2010
Debt to shareholders' equity	**2.93:1**	2.90:1	2.94:1
Shareholders' equity as a percent of net loans	**26.97%**	27.02%	26.50%
Shareholders' equity as a percent of total assets	**25.43%**	25.63%	25.41%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2011 primarily due to increased loan volume and a related increase in our note payable to CoBank.

Retained Earnings

Our retained earnings increased $1.2 million to $31.1 million at December 31, 2012 from $29.9 million at December 31, 2011 and increased $3.8 million from $27.3 million at December 31, 2010. The increase was a result of net income of $1.9 million, partially offset by $630 thousand of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, this includes increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $630 thousand in 2012, $392 thousand in 2011 and $365 thousand in 2010.

Stock

Our total stock decreased $1 thousand to $612 thousand at December 31, 2012, from $613 thousand at December 31, 2011 and increased from $607 thousand at December 31, 2010. The decrease was due to $55 thousand of stock retirements, partially offset by $54 thousand of stock issuances. We require a stock investment for each borrower**.** The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the borrower's combined loan balance(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $14 thousand at December 31, 2012, a decrease of $10 thousand compared with year-end 2011 and a decrease of $17 thousand compared with year-end 2010. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow.

	Regulatory Minimum	**2012**	2011	2010
Permanent capital ratio	7.00%	**23.60%**	23.31%	24.54%
Total surplus ratio	7.00%	**23.09%**	22.77%	23.97%
Core surplus ratio	3.50%	**23.06%**	22.77%	23.73%

As of December 31, 2012, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2013. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2012, we have exceeded our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

REGULATORY MATTERS

As of December 31, 2012, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

The FCA is considering the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital structure would be similar to the capital tiers delineated in the Basel Accord that the other Federal financial regulatory agencies have proposed for the banking organizations they regulate.

GOVERNANCE

Board of Directors

We are governed by a five member board that provides direction and oversees our management. Of these directors, four are elected by the shareholders and one is appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of the full Board of Directors. During 2012, five meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and,
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of the full Board of Directors. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;

- open lines of communication between the independent auditors, management, and the Audit Committee;
- “plain English” disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

FORWARD-LOOKING INFORMATION

Our discussion contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” and “will,” or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying consolidated financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to the determination of the allowance for loan losses follows.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower’s overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying consolidated financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers’ nonpublic information.

Farm Credit of Central Oklahoma
Mission & Georgia, P.O. Box 910
Anadarko, Oklahoma 73005
405-247-2421

REPORT OF MANAGEMENT

The financial statements of Farm Credit of Central Oklahoma (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2012 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, CoBank, ACB's Internal Audit staff performed audits of the accounting records, reviewed accounting systems and internal controls, and recommended improvements as appropriate. The financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

The undersigned certify the Farm Credit of Central Oklahoma, ACA Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

"Signature on File'

Bobby Tarp
Chairman of the Board

"Signature on File"

Blake Byrd
President and Chief Executive Officer

"Signature on File"

Michael C. Prochaska
Chief Financial Officer

March 15, 2013

Farm Credit of Central Oklahoma
Mission & Georgia, P.O. Box 910
Anadarko, Oklahoma 73005
405-247-2421

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes five members from the Board of Directors of Farm Credit of Central Oklahoma (Association). In 2012, five Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2012.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2012 were $ 11,834 for audit services, $ 6,800 for tax services.

The Committee reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2012 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2012.

"Signature on File"

Alan Schenk, Chairman of the Audit Committee

Audit Committee Members
David Dolch, Vice Chairman
Steve Calhoun
Ricky Carothers
Bobby Tarp

March 15, 2013

pwc

Independent Auditor's Report

To the Board of Directors and Shareholders of
Farm Credit of Central Oklahoma, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of Central Oklahoma, ACA and its subsidiaries (the Association), which comprise the consolidated statement of condition as of December 31, 2012, 2011 and 2010, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit of Central Oklahoma, ACA and its subsidiaries at December 31, 2012, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 15, 2013

PricewaterhouseCoopers LLP, 1100 Walnut Suite 1300, Kansas City MO 64106
T: (816) 472 7921, F: (813) 329 7730, www.pwc.com/us

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2012	2011	2010
ASSETS			
Loans	**$ 117,925**	$ 113,165	$ 105,478
Less allowance for loan losses	**209**	295	228
Net loans	**117,716**	112,870	105,250
Cash	**191**	138	241
Accrued interest receivable	**1,542**	1,563	1,488
Investment in CoBank, ACB	**3,588**	NA	NA
Investment in U.S. AgBank, FCB	**NA**	3,349	2,224
Premises and equipment, net	**216**	186	163
Other property owned	**860**	-	-
Prepaid benefit expense	**203**	206	230
Other assets	**545**	641	155
Total assets	**$ 124,861**	$ 118,953	$ 109,751
LIABILITIES			
Note payable to CoBank, ACB	**$ 90,958**	NA	NA
Note payable to U.S. AgBank, FCB	**NA**	85,951	80,114
Advance conditional payments	**385**	913	294
Accrued interest payable	**778**	952	963
Accrued benefits liability	**95**	125	153
Other liabilities	**899**	519	341
Total liabilities	**93,115**	88,460	81,865
Commitments and Contingencies (See Note 14)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	**-**	1	1
Capital stock	**612**	612	606
Unallocated retained earnings	**31,148**	29,904	27,310
Accumulated other comprehensive income/(loss)	**(14)**	(24)	(31)
Total shareholders' equity	**31,746**	30,493	27,886
Total liabilities and shareholders' equity	**$ 124,861**	$ 118,953	$ 109,751

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2012	2011	2010
INTEREST INCOME			
Loans	**$ 6,054**	$ 5,983	$ 6,066
Total interest income	**6,054**	5,983	6,066
INTEREST EXPENSE			
Note payable to CoBank, ACB	**2,806**	NA	NA
Note payable to U.S. AgBank, FCB	**NA**	3,253	3,431
Other	**8**	7	1
Total interest expense	**2,814**	3,260	3,432
Net interest income	**3,240**	2,723	2,634
Provision for loan losses/(Loan loss reversal)	**65**	67	(78)
Net interest income after provision for loan losses/(loan loss reversal)	**3,175**	2,656	2,712
NONINTEREST INCOME			
Financially related services income	**3**	2	4
Loan fees	**15**	2	11
Patronage distribution from Farm Credit institutions	**461**	1,062	154
Farm Credit Insurance Fund distribution	**103**	-	99
Mineral income	**175**	-	-
Tax-free recapitalization distribution due to AgBank merger	**-**	1,088	-
Other noninterest income	**42**	17	15
Total noninterest income	**799**	2,171	283
NONINTEREST EXPENSE			
Salaries and employee benefits	**1,175**	1,039	959
Occupancy and equipment	**56**	59	51
Purchased services from AgVantis, Inc.	**323**	225	196
Losses on other property owned, net	**28**	1	38
Farm Credit Insurance Fund premium	**44**	55	43
Supervisory and examination costs	**51**	49	45
Other noninterest expense	**423**	413	382
Total noninterest expense	**2,100**	1,841	1,714
Net income	**1,874**	2,986	1,281
COMPREHENSIVE INCOME			
Amortization of retirement costs	**2**	6	9
Actuarial gain in retirement obligation	**8**	1	-
Total comprehensive income	**$ 1,884**	$ 2,993	$ 1,290

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2009	$ 1	$ 597	$ 26,394	$ (40)	$ 26,952
Comprehensive income			1,281	9	1,290
Stock issued	-	68			68
Stock retired		(59)			(59)
Patronage distributions: Cash			(365)		(365)
Balance at December 31, 2010	1	606	27,310	(31)	27,886
Comprehensive income			2,986	7	2,993
Stock issued	-	98			98
Stock retired	-	(92)			(92)
Patronage distributions: Cash			(392)		(392)
Balance at December 31, 2011	1	612	29,904	(24)	30,493
Comprehensive income			1,874	10	1,884
Stock issued	-	54			54
Stock retired	(1)	(54)			(55)
Patronage distributions: Cash			(630)		(630)
Balance at December 31, 2012	**$ -**	**$ 612**	**$ 31,148**	**$ (14)**	**$ 31,746**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 1,874**	$ 2,986	$ 1,281
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**48**	30	25
Provision for loan losses/(Loan loss reversal)	**65**	67	(78)
Tax-free recapitalization distribution due to AgBank merger	**-**	(1,088)	-
Allocated patronage from AgVantis	**(45)**	-	-
Gains on sales of premises and equipment	**(29)**	-	-
Losses on sales of other property owned	**-**	-	18
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	**21**	(75)	73
Decrease in prepaid benefit expense	**3**	24	33
Decrease/(Increase) in other assets	**141**	(486)	34
Decrease in accrued interest payable	**(174)**	(11)	(78)
Decrease in accrued benefits liability	**(20)**	(21)	(17)
Increase/(Decrease) in other liabilities	**380**	178	(88)
Total adjustments	**390**	(1,382)	(78)
Net cash provided by operating activities	**2,264**	1,604	1,203
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(5,771)**	(7,687)	(5,573)
Increase in investment in CoBank/AgBank	**(239)**	(37)	-
Expenditures for premises and equipment, net	**(49)**	(53)	(9)
Proceeds from sales of other property owned	**-**	-	365
Net cash used in investing activities	**(6,059)**	(7,777)	(5,217)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank/AgBank	**5,007**	5,837	4,055
(Decrease)/Increase in advance conditional payments	**(528)**	619	78
Protected borrower stock retired	**(1)**	-	-
Capital stock retired	**(54)**	(92)	(59)
Capital stock issued	**54**	98	68
Cash patronage distributions paid	**(630)**	(392)	(365)
Net cash provided by financing activities	**3,848**	6,070	3,777
Net increase/(decrease) in cash	**53**	(103)	(237)
Cash at beginning of year	**138**	241	478
Cash at end of year	**$ 191**	$ 138	$ 241
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for interest	**$ 2,988**	$ 3,271	$ 3,510
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Tax-free recapitalization distribution due to AgBank merger	**$ -**	$ 1,088	$ -
Allocated patronage from AgVantis	**$ 45**	$ -	$ -
Financed sales of other property owned	**$ -**	$ -	$ 260
Loans transferred to other property owned	**$ 860**	$ -	$ 217
Net charge-offs	**$ 151**	$ -	$ -
Change in accumulated other comprehensive income/(loss)	**$ 10**	$ 7	$ 9

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit of Central Oklahoma, ACA and its subsidiaries, Farm Credit of Central Oklahoma, FLCA, (Federal Land Credit Association (FLCA)) and Farm Credit of Central Oklahoma, PCA, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Caddo, Comanche, Grady, Cleveland and McClain in the state of Oklahoma.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2012, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank and 82 associations.

Effective January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB (CoBank). As a result of the merger, CoBank became the funding bank of the Association beginning January 1, 2012. For purposes throughout this disclosure, “the Bank” refers to AgBank for periods prior to January 1, 2012 and to CoBank for periods subsequent to December 31, 2011.

CoBank, its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 27 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), two FLCAs and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the “secure base amount,” which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association’s average adjusted note payable with the Bank.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also offers credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts, and vehicle and equipment leasing.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 509 W. Georgia Ave., Anadarko, Oklahoma 73005 or by calling (405) 247-2421. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report, which includes the unaudited condensed combined balance sheet and income statement of CoBank and its related Associations, and AgVantis. The CoBank Annual Report discusses the material aspects of the Bank's and District's financial condition, changes in financial condition, and results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires Association management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the current year's financial statement presentation.

The consolidated financial statements include the accounts of Farm Credit of Central Oklahoma, FLCA and Farm Credit of Central Oklahoma, PCA. All significant inter-company transactions have been eliminated in consolidation. Recently issued or adopted accounting pronouncements follow.

In June and December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. This guidance did not change the items that must be reported in other comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). The December 2011 guidance deferred the effective date for the presentation of reclassification adjustments. This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact financial condition or results of operations, but resulted in changes to the presentation of comprehensive income.

Below is a summary of our significant accounting policies.

A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

   Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected in full or otherwise discharged.

   Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The Association purchases loan participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are sold following accounting requirements for sale treatment.

The Association uses a two-dimensional loan rating model based on an internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is composed of patronage based stock and purchased stock.

   Prior to the bank merger on January 1, 2012, the Association's investment in AgBank was in the form of Class A Stock. The minimum required investment in AgBank was 5.00 percent of average direct loan volume, net of excess investment. The required investment was adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment was composed of AgBank surplus attributed to the Association, patronage based stock and purchased stock. At the time of the merger, the investment in AgBank was converted to an investment in CoBank.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the building is 50 years and ranges from 1 to 8 years for furniture, equipment and automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense and improvements above certain thresholds are capitalized.

E. Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. On at least an annual basis, revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments are included in net losses on other property owned in the Consolidated Statement of Comprehensive Income.

F. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable and employee benefits.

G. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other interest bearing liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while non-restricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

H. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Pension Plan was closed to employees beginning January 1, 2007. All defined contribution costs are expensed in the same period that participants earn employer contributions. The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

The Association also participates in the Ninth District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

Eligible employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan.

I. Patronage Distribution from CoBank: Effective January 1, 2012, patronage distributions from CoBank are accrued by the Association. Prior to the bank merger, the Association historically recorded patronage distributions from AgBank upon receipt of the distribution. Effective December 31, 2011, the Association accrued the AgBank patronage from its 2011 earnings. This resulted in the Association recording two years of patronage income from AgBank in 2011. The accrued 2011 patronage was paid by CoBank to the Association in March 2012.

J. Income Taxes: As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association’s expected patronage program, which reduces taxable earnings.

On December 31, 2011, AgBank, in anticipation of its January 1, 2012 merger with CoBank, recapitalized and distributed stock to its Association members. Deferred taxes have not been recorded by the Association on that distribution as management’s intent, if that stock is ever converted to cash, is to pass through any related earnings to Association borrowers through qualified patronage allocations.

K. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders’ equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

L. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds which relate to the Association’s deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include loans and other property owned.

The fair value disclosures are presented in Note 15.

M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2012	2011	2010
Real estate mortgage	**$ 100,208**	$ 99,227	$ 90,492
Production and intermediate-term	**10,788**	10,043	11,121
Agribusiness:			
Loans to cooperatives	**1,000**	–	–
Processing and marketing	**1,716**	848	961
Farm related business	**–**	102	150
Communication	**1,998**	–	–
Rural residential real estate	**2,215**	2,945	2,754
Total loans	**$ 117,925**	$ 113,165	$ 105,478

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2012:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 1,798	$ 4,116	$ 2,740	$ 1	$ 4,538	$ 4,117
Production and intermediate-term	190	2,580	–	–	190	2,580
Agribusiness:						
Loans to cooperatives	1,000	–	–	–	1,000	–
Process and marketing	1,001	–	715	–	1,716	–
Communication	1,998	–	–	–	1,998	–
Total	$ 5,987	$ 6,696	$ 3,455	$ 1	$ 9,442	$ 6,697

The Association's concentration of credit risk in various agricultural commodities is shown in the following table.

	December 31					
	2012		2011		2010	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Beef	**$ 67,359**	**57.12%**	$ 63,644	56.24%	$ 55,450	52.57%
Landlords	**11,993**	**10.17%**	13,003	11.49%	12,235	11.60%
Wheat	**10,389**	**8.81%**	9,393	8.30%	9,546	9.05%
Hay crops	**6,238**	**5.29%**	5,636	4.98%	4,187	3.97%
Peanuts	**4,587**	**3.89%**	4,572	4.04%	4,145	3.93%
Horses	**3,220**	**2.73%**	2,750	2.43%	2,669	2.53%
Dairy	**2,795**	**2.37%**	3,983	3.52%	4,219	4.00%
Buffalo	**1,238**	**1.05%**	1,279	1.13%	1,466	1.39%
Biofuels	**696**	**0.59%**	826	0.73%	939	0.89%
Other	**9,410**	**7.98%**	8,080	7.14%	10,622	10.07%
Total	**$ 117,925**	**100.00%**	$ 113,165	100.00%	$105,478	100.00%

While the percentages shown in the previous table represent the relative amounts of the Association's potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the Association's current loss exposure is indicated in the consolidated financial statements in the allowance for loan losses.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed or enhanced by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Credit enhancements with federal government agencies of $160 at year-end 2012, $174 at year-end 2011 and $187 at year-end 2010 were outstanding.

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, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2012	2011	2010
Real estate mortgage			
Acceptable	**98.66%**	97.95%	97.00%
OAEM	**0.67%**	0.30%	0.38%
Substandard	**0.67%**	1.75%	2.62%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**99.66%**	100.00%	94.10%
OAEM	**–**	–	5.90%
Substandard	**0.34%**	–	–
Total	**100.00%**	100.00%	100.00%

(continued from previous page)	**2012**	2011	2010
Agribusiness			
Acceptable	**73.73%**	100.00%	36.89%
OAEM	**–**	–	63.11%
Substandard	**26.27%**	–	–
Total	**100.00%**	100.00%	100.00%
Communication			
Acceptable	**100.00%**	–	–
Total	**100.00%**	–	–
Rural residential real estate			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**98.23%**	98.20%	96.14%
OAEM	**0.57%**	0.26%	1.61%
Substandard	**1.20%**	1.54%	2.25%
Total	**100.00%**	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
	2012	2011	2010
Nonaccrual loans:			
Past due	**$ 340**	$ 1,282	$ 114
Total nonaccrual loans	**340**	1,282	114
Impaired accrual loans:			
Restructured	**73**	83	98
Total impaired loans	**$ 413**	$ 1,365	$ 212

There were no loans classified as accruing loans 90 days or more past due for the years presented.

There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) are as follows:

	December 31		
(dollars in thousands)	**2012**	2011	2010
Nonaccrual loans			
Real estate mortgage	**$ 101**	$ 1,282	$ 114
Agribusiness	**239**	–	–
Total nonaccrual loans	**340**	1,282	114
Accruing restructured loans			
Real estate mortgage	**73**	83	92
Rural residential real estate	**–**	–	6
Total accruing restructured loans	**73**	83	98
Total impaired loans	**413**	1,365	212
Other property owned	**860**	–	–
Total high risk assets	**$ 1,273**	$ 1,365	$ 212

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/12	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ 330	$ –
Total	$ –	$ –	$ –	$ 330	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 174	$ 162		$ 227	$ 26
Process and marketing	239	239		4	–
Total	$ 413	$ 401		$ 231	$ 26
Total impaired loans:					
Real estate mortgage	$ 174	$ 162	$ –	$ 558	$ 26
Process and marketing	239	239	–	4	–
Total	$ 413	$ 401	$ –	$ 562	$ 26

	Recorded Investment at 12/31/11	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 986	$ 936	$ 125	$ 743	$ –
Total	$ 986	$ 936	$ 125	$ 743	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 379	$ 351		$ 265	$ 13
Rural residential real estate	–	–		3	–
Total	$ 379	$ 351		$ 268	$ 13
Total impaired loans:					
Real estate mortgage	$ 1,365	$ 1,287	$ 125	$ 1,008	$ 13
Rural residential real estate	–	–	–	3	–
Total	$ 1,365	$ 1,287	$ 125	$ 1,011	$ 13

* Unpaid principal balance represents the recorded principal balance of the loan

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

	Year Ended December 31		
	2012	2011	2010
Interest income recognized on:			
Nonaccrual loans	**$ 25**	$ 11	$ 9
Restructured accrual loans	**1**	1	1
Accrual loans 90 days or more past due	**–**	1	3
Interest income recognized on impaired loans	**$ 26**	$ 13	$ 13

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	Year Ended December 31		
	2012	2011	2010
Interest income which would have been recognized under the original loan terms	**$ 62**	$ 99	$ 19
Less: interest income recognized	**26**	12	10
Interest income not recognized	**$ 36**	$ 87	$ 9

The following table provides an age analysis of past due loans (including accrued interest).

December 31, 2012	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 204	$ 101	$ 305	$101,181	$101,486	$ –
Production and intermediate-term	–	–	–	11,037	11,037	–
Agribusiness	240	–	240	2,485	2,725	–
Communication	–	–	–	1,998	1,998	–
Rural residential real estate	–	–	–	2,221	2,221	–
Total	$ 444	$ 101	$ 545	$118,922	$119,467	$ –

December 31, 2011	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 134	$ 1,282	$ 1,416	$ 99,149	$ 100,565	$ –
Production and intermediate-term	–	–	–	10,256	10,256	–
Agribusiness	–	–	–	952	952	–
Rural residential real estate	–	–	–	2,955	2,955	–
Total	$ 134	$ 1,282	$ 1,416	$ 113,312	$ 114,728	$ –

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 acquisitions costs and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring 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 new troubled debt restructurings in 2012 and 2011.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as accruing restructured loans in the impaired loan table. There were no outstanding loans restructured in troubled debt restructurings in nonaccrual status at December 31, 2012 and 2011.

	Loans modified as TDRs	
	December 31, 2012	December 31, 2011
Real estate mortgage	**$ 73**	$ 83
Total	**$ 73**	$ 83

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2012
Real estate mortgage	$ 220	$ 151	$ –	$ 46	$ 115
Production and intermediate-term	65	–	–	(23)	42
Agribusiness	9	–	–	41	50
Communication	–	–	–	1	1
Rural residential real estate	1	–	–	–	1
Total	$ 295	$ 151	$ –	$ 65	$ 209

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2011
Real estate mortgage	$ 79	$ –	$ –	$ 141	$ 220
Production and intermediate-term	76	–	–	(11)	65
Agribusiness	72	–	–	(63)	9
Rural residential real estate	1	–	–	–	1
Total	$ 228	$ –	$ –	$ 67	$ 295

	Allowance for Credit Losses Ending Balance at December 31, 2012		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2012	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 115	$ 174	$ 101,312
Production and intermediate-term	–	42	–	11,037
Agribusiness	–	50	239	2,486
Communication	–	1	–	1,998
Rural residential real estate	–	1	–	2,221
Total	$ –	$ 209	$ 413	$ 119,053

	Allowance for Credit Losses Ending Balance at December 31, 2011		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2011	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 125	$ 95	$ 1,364	$ 99,201
Production and intermediate-term	–	65	–	10,256
Agribusiness	–	9	–	952
Rural residential real estate	–	1	–	2,955
Total	$ 125	$ 170	$ 1,364	$ 113,364

NOTE 4 – INVESTMENT IN COBANK

The Association is required to maintain an investment in CoBank equal to 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is composed of patronage based stock and purchased stock. Pursuant to the January 1, 2012 merger between CoBank and AgBank, at year-end 2011, AgBank undertook a recapitalization transaction in order to align all associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such association. As a result of the merger, the Association's investment in AgBank stock was converted to CoBank stock.

Prior to the AgBank/CoBank merger, the Association was required to maintain an investment in AgBank equal to 5.00 percent of average direct loan volume, net of excess investment. The Association's investment in AgBank may have consisted of AgBank surplus attributed to the Association, patronage based stock and purchased stock. The Association's stock investment in AgBank was in the form of Class A Stock. The investment in AgBank was adjusted on a quarterly basis to reflect changes in direct loan volume. If needed to meet capital adequacy requirements, AgBank required the Association to purchase at-risk stock subject to a limit of one percent of the Association's average Direct Loan Volume in a twelve month period.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2012	2011	2010
Land	**$ 32**	$ 32	$ 32
Building and leasehold improvements	**434**	430	399
Furniture, equipment and automobiles	**243**	221	223
	709	683	654
Less: accumulated depreciation	**493**	497	491
Total	**$ 216**	$ 186	$ 163

NOTE 6 – OTHER PROPERTY OWNED

Losses on other property owned, net as reflected on the Consolidated Statement of Comprehensive Income consists of the following.

	December 31		
	2012	2011	2010
Losses on sale, net	**$ –**	$ –	$ 18
Operating expense, net	**28**	1	20
Losses on other property owned, net	**$ 28**	$ 1	$ 38

NOTE 7 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for a $105 million line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2012. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 3.15 percent for the year ended December 31, 2012, compared with 3.92 percent at December 31, 2011, and 4.41 percent at December 31, 2010. With the merger of AgBank and CoBank on January 1, 2012, the GFA was extended and will expire on May 31, 2013. Management expects renewal of the GFA at that time.

The Association has the opportunity to commit funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows:

	2012	2011	2010
Committed funds	**$ 27,418**	$ 26,809	$ 24,902
Average rates	**0.53%**	0.60%	0.84%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2012, the Association's note payable was within the specified limitations

NOTE 8 – SHAREHOLDERS' EQUITY

Descriptions of the Association's capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. Protected Borrower Stock

Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an association is unable to retire protected stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the borrower's combined loan balance(s).

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2012, the Association's permanent capital ratio was 23.60 percent, total surplus ratio was 23.09 percent and core surplus ratio was 23.06 percent.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2012. Unless otherwise indicated all classes of stock have a par value of $5.00.

Class A — Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Represents Association retained earnings, dividends or patronage distributions allocated on or after October 6, 1988. This stock may also represent Class B or Class C Common Stock of a borrower which automatically converts to Class A two years after repayment of the loan in full. Retirement is at the sole discretion of the Board of Directors.

Class B — Common Stock (Voting, at-risk, 118,121 shares outstanding) - Issued on or after October 6, 1988, for farm and ranch loans. Retirement is at the sole discretion of the Board of Directors. If the Association is unable to retire Class B Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class C — Common Stock (Nonvoting, at-risk, 4,390 shares outstanding) - Issued on or after October 6, 1988, for farm-related and rural home loans and to other persons or organizations who are eligible to borrow but are not eligible to hold voting stock. Retirement is at the sole discretion of the Board of Directors. If the Association is unable to retire Class C Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class D Investor Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) - Available to outside parties.

Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Shall be issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.

Class F Common Stock (Voting, protected, no shares outstanding) - Issued prior to October 6, 1988, to borrowers entitled to vote. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. If so, the stock must be converted to Class G Common Stock within two years after loan repayment in full.

Class G Common Stock (Nonvoting, protected, no shares outstanding) - Formerly participation certificates, this represents stock issued prior to October 6, 1988, to rural residence borrowers and others not eligible to vote. This stock may also represent Class F Common Stock of a borrower which automatically converts to Class G Common Stock two years after repayment of the loan in full. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association.

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $630 in 2012, $392 in 2011 and $365 in 2010.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: first, to Class E Preferred Stock, then Class A Preferred Stock; second, pro rata to all classes of common stock and investor stock. Any remaining assets of the Association after such distributions shall be distributed to holders of all classes of common stock, pro rata.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2012, the Association allocated 33.61 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits of $14 in 2012, $24 in 2011 and $31 in 2010. There were no other items affecting comprehensive income or loss.

NOTE 9 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows.

	2012	2011	2010
CoBank	**$ 401**	$ NA	$ NA
AgBank	**NA**	1,062	154
AgVantis	**56**	–	–
Farm Credit Foundations	**4**	–	–
Total	**$ 461**	$ 1,062	$ 154

Patronage distributed from CoBank was in cash and patronage distributed from AgBank was in cash. The amount declared in December 2012 was accrued and will be paid by CoBank in March 2013. The amount declared in December 2011 by AgBank was accrued in 2011 and was paid in March 2012. Patronage received in March 2011 and March 2010 was recognized as received.

Patronage distribution from AgVantis was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received. This patronage program replaced the previous program whereby we received a rebate from AgVantis which reduced the cost of our purchased services from AgVantis. Patronage distributed by Farm Credit Foundations was in cash and was recorded in the year received. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 10 – INCOME TAXES

The Association recorded no provision for income taxes for the three years presented. The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows.

	Year Ended December 31		
	2012	2011	2010
Federal tax at statutory rate	**$ 637**	$ 1,015	$ 436
Effect of non-taxable FLCA subsidiary	**(658)**	(986)	(430)
Increase in valuation allowance	**21**	11	(6)
Effect of tax-free recapitalization distribution from Bank merger	**–**	(40)	–
Provision for income taxes	**$ –**	$ –	$ –

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2012	2011	2010
Deferred income tax assets:			
Nonaccrual interest	**$ –**	$ –	$ 1
Net operating loss carryforward	**766**	749	707
Gross deferred tax assets	**766**	749	708
Deferred tax asset valuation	**(744)**	(720)	(708)
Deferred income tax liabilities:			
Bank patronage allocation	**(22)**	(29)	–
Net deferred tax asset	**$ –**	$ –	$ –

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association recorded a valuation allowance of $744 in 2012, $720 in 2011 and $708 in 2010. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2012, the Association had federal net operating loss carryforwards that expire from 2021 to 2032.

The Association has no uncertain tax positions as of December 31, 2012, 2011 or 2010. The tax years that remain open for federal and major state income tax jurisdictions are 2009 and forward.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth Retirement Plan, a multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The defined benefit pension plan reflects an unfunded liability totaling $93.9 million at December 31, 2012. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $210.1 million at December 31, 2012,$224.1 million at December 31, 2011 and$184.9 million at December 31, 2010. The fair value of the plan assets was $116.2 million at December 31, 2012, $122.2 million at December 31, 2011and $119.7 at December 31, 2010. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $25.4 million in 2012, $10.2 million in 2011, and $8.6 million in 2010. The Association's allocated share of plan expenses included in salaries and employee benefits was $235 in 2012, $134 in 2011, and $117 in 2010. Participating employers contributed $12.8 million in 2012, $8.3 million in 2011, and $6.2 million in 2010 to the plan. The Association's allocated share of these pension contributions was $232 in 2012, $109 in 2011, and $85 in 2010. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2013 is $14.2 million. The Association's allocated share of these pension contributions is expected to be $255. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits) included in salaries and employee benefits were $4 in 2012 and 2011 and $2 in 2010. These expenses are equal to the Association's cash contributions for each year.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $10 in 2012, $10 in 2011 and $12 in 2010. These expenses are equal to the Association's cash contributions for each year.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan follows:

	Nonqualified Pension Benefits		
	2012	2011	2010
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 42**	$ 62	$ 79
Interest cost	**2**	3	4
Actuarial gain	**(2)**	(1)	–
Benefits paid	**(21)**	(21)	(21)
Benefit obligation at the end of the period	**$ 21**	$ 43	$ 62
Change in plan assets:			
Company contributions	**21**	21	21
Benefits paid	**(21)**	(21)	(21)
Fair value of plan assets at the end of the period	**$ –**	$ –	$ –
Funded status of the plan	**$ (21)**	$ (43)	$ (62)

	Nonqualified Pension Benefits		
	2012	2011	2010
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 21**	$ 43	$ 62
Net amount recognized	**$ 21**	$ 43	$ 62

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31:

	2012	2011	2010
Net actuarial loss	**$ (13)**	$ (23)	$ (29)
Prior service costs	**(1)**	(1)	(2)
Total amount recognized in AOCI/(loss)	**$ (14)**	$ (24)	$ (31)

An estimated net actuarial loss of $13 for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2012	2011	2010
Projected benefit obligation	**$ 21**	$ 43	$ 62
Accumulated benefit obligation	**$ 21**	$ 43	$ 62

The net periodic pension expense for the Pension Restoration Plan included in the Consolidated Statement of Comprehensive Income is comprised of the following at December 31.

	Pension Benefits		
	2012	2011	2010
Components of net periodic benefit expense			
Interest cost	**$ 2**	$ 3	$ 4
Net amortization and deferral	**8**	7	8
Net periodic pension expense	**$ 10**	$ 10	$ 12

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

	2012	2011	2010
Current year net actuarial gain	**$ 2**	$ 1	$ –
Amortization of prior service credit	**–**	–	1
Amortization of net actuarial gain	**8**	6	8
Total recognized in other comprehensive income	$ **10**	$ 7	$ 9

Weighted average assumptions used to determine benefit obligation at December 31:

	Pension Benefits		
	2012	2011	2010
Discount rate	**4.15%**	5.10%	5.30%
Rate of compensation increase	**5.00%**	5.00%	5.00%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		
	2012	2011	2010
Discount rate	**5.10%**	5.30%	5.65%
Rate of compensation increase	**5.00%**	5.00%	5.00%

The Association expects to contribute $21 to the Pension Restoration Plan in 2013.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Restoration Benefits
2013	$ 21
2014	$ –
2015	$ –
2016	$ –
2017	$ –
2018 – 2022	$ –

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to this plan were $43 in 2012, $41 in 2011 and $40 in 2010.

NOTE 12 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within 90 days or a plan of action must be presented to the Board of Directors. If not, the director or senior officer must resign from the Board of Directors or employment.

Loan information to related parties for the years ended December 31 is shown below.

	2012	2011	2010
New loans	**$ 639**	$ 939	$ 890
Repayments	**$ 889**	$ 1,142	$ 944
Ending balance	**$ 1,811**	$ 1,519	$ 2,058

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2012 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $323 in 2012, $225 in 2011 and $196 in 2010 to AgVantis for technology services and $26 in 2012, $27 in 2011 and $26 in 2010 to the Bank for operational services.

NOTE 13 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2012, $12,374 of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

NOTE 15 – 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 an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2012	**$ 8**	**$ –**	**$ –**	**$ 8**
2011	$ 41	$ –	$ –	$ 41
2010	$ 81	$ –	$ –	$ 81

During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
2012					
Loans	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
Other property owned	**$ –**	**$ –**	**$ 927**	**$ 927**	**$ 26**
2011					
Loans	$ –	$ –	$ 860	$ 860	$ 125
Other property owned	$ –	$ –	$ –	$ –	$ –
2010					
Loans	$ –	$ –	$ –	$ –	$ –
Other property owned	$ –	$ –	$ –	$ –	$ –

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

The estimated fair values of the Association's financial instruments follow.

	December 31					
	2012		2011		2010	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	**$ 117,716**	**$ 118,803**	$ 112,870	$ 114,292	$ 105,250	$ 106,393
Cash	**$ 191**	**$ 191**	$ 138	$ 138	$ 241	$ 241
Assets held in nonqualified benefits trust	**$ 8**	**$ 8**	$ 41	$ 41	$ 81	$ 81
Financial liabilities:						
Note payable to CoBank	**$ 90,958**	**$ 92,722**	$ NA	$ NA	$ NA	$ NA
Note payable to AgBank	**$ NA**	**$ NA**	$ 85,951	$ 87,992	$ 80,114	$ 81,542
Advance conditional payments	**$ 385**	**$ 385**	$ 913	$ 913	$ 294	$ 294

Valuation Techniques

As more fully discussed in Note 2, 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:

Loans

Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the District's current loan origination rates as well as management estimates of credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

With regards to impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. For certain loans evaluated for impairment under accounting impairment guidance, 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 and the net loan is reported at its fair value.

Cash

The carrying value is a reasonable estimate of fair value.

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.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. Like impaired loans, it is not practicable to provide specific information on inputs for other property owned as each collateral property is unique.

Note Payable to the Funding Bank

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets), which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current interest rate that would be charged for borrowings. For purposes of this estimate, it is assumed the cash flow on the notes payable is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable.

Advance Conditional Payments

The carrying value is a reasonable estimate of fair value as these funds are held in cash.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations. These are generally classified as Level 3 and are valued by using discounted cash flows with unobservable inputs of rate of funding and risk-adjusted spread. As of December 31, 2012, 2011 and 2010, the fair value was considered nominal.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2012, 2011 and 2010, follow.

	2012				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 800**	**$ 791**	**$ 837**	**$ 812**	**$ 3,240**
(Loan loss reversal)/Provision for loan losses	**(18)**	**31**	**(1)**	**53**	**65**
Noninterest expense, net	**306**	**219**	**337**	**439**	**1,301**
Net income	**$ 512**	**$ 541**	**$ 501**	**$ 320**	**$ 1,874**

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 673	$ 668	$ 688	$ 694	$ 2,723
Provision for loan losses/(Loan loss reversal)	9	(2)	25	35	67
Noninterest (income)/expense, net	(79)	455	405	(1,111)	(330)
Net income	$ 743	$ 215	$ 258	$ 1,770	$ 2,986

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 659	$ 655	$ 653	$ 667	$ 2,634
Provision for loan losses/(Loan loss reversal)	5	(29)	(4)	(50)	(78)
Noninterest expense, net	161	397	358	515	1,431
Net income	$ 493	$ 287	$ 299	$ 202	$ 1,281

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 15, 2013 which is the date the financial statements were issued, and no material subsequent events were identified.

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

Description of Property

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
Corner of Mission & Georgia Anadarko, Oklahoma	Office Building & Two Lots	Warranty Deed

Legal Proceedings and Enforcement Actions

Information required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, "Regulatory Enforcement Matters," and Note 14 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

Description of Capital Structure

Information required to be disclosed in this section is incorporated herein by reference from Note 8 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

Description of Liabilities

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Note Payable to CoBank," included in this annual report to shareholders.
The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 14 included in this annual report to shareholders.

Selected Financial Data

The selected financial data for the five years ended December 31, 2012, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

Management's Discussion and Analysis

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association.

DIRECTORS

Bobby Tarp	Chairman, serving a three-year term expiring in 2014. Mr. Tarp was first appointed to the Board in 1993. His principal occupation has been farming/ranching since 1977. He operates a cow/calf operation, runs stocker cattle and farms corn, wheat and hay and he also does custom hay baling. He is an FSA County Committeeman. Mr. Tarp is a member and deacon of the Church of Christ of Purcell.
Alan Schenk	Audit Committee Chairman, serving a three-year term that expires in 2013. Mr. Schenk was first elected to the Board in 2004. Mr. Schenk maintains a cow/calf operation, raises wheat for pasture and grain, and raises alfalfa hay. He is vice president of DO-BE Holstein Farms, Inc., a family corporation. Mr. Schenk is a member of Grady County Farm Bureau, a service-oriented organization.
Steve Calhoun	Director, serving a three-year term expiring in 2015. He was first elected to the Board in 2012. Mr. Calhoun's principal occupation has been farming/ranching since 1968. He operates a cow/calf, wheat and alfalfa hay operation. He is also the General Manager of Ross Seed Company in Chickasha. He is President of the Oklahoma Crop Improvement Association, Vice President of the board for Farm Service Agency and a Farm Bureau member. Mr. Calhoun is a member of Epworth Methodist Church where he is a board member for the Special Young Adults Program.
Ricky Carothers	Director, serving a three-year term expiring in 2015. He was first elected in 2003. Mr. Carothers' principal occupation has been farming since 1974. Mr. Carothers diversified farm operation consists of wheat, cotton, a cow/calf operation and he also runs stocker cattle. He is retired from teaching sixth grade at Snyder Public Schools.
David Dolch	Director, serving a two-year term expiring in 2014. Mr. Dolch was first elected to the Board in 2012. His principal occupation has been farming/ranching since 1993. He maintains a 50 head cow/calf operation and is also the assistant manager at Clinton Livestock Auction.
Larry D. Bridwell	Director, served a three-year term which expired in 2012.

SENIOR OFFICERS

Blake Byrd	President and Chief Executive Officer. Mr. Byrd has served as the Association President and Chief Executive Officer since October 2007. He joined Farm Credit of Central Oklahoma in June 1988 and has served in various capacities. He served as the Association Vice President/Chief Credit Officer from January 1994 through December 2001 and as the Association Senior Vice President/Chief Financial Officer from January 2002 through October 2007.
Michael Prochaska	Sr. Vice President and Chief Financial Officer. Mr. Prochaska has served as the Association Sr. Vice President/Chief Financial Officer since July 1, 2011. He joined Farm Credit of Central Oklahoma in July 1988 as the Special Credit Officer and has served in various capacities. He served as the Association Vice President/Chief Credit Officer from January 2002 through June 2011. Mr. Prochaska has a total of 27 years of Farm Credit experience.
Russell Strecker	Vice President and Chief Credit Officer. Mr. Strecker has served as the Association Vice President/Chief Credit Officer since September 2011. He joined Farm Credit of Central Oklahoma in August 1993 and has served in various capacities within the credit Department.

COMPENSATION OF DIRECTORS AND OFFICERS

Directors of the Association were compensated for services with a $800 per month stipend. The Chairman and Stockholder Advisory Committee representative each received an additional $100 per month. Association directors and employees traveling on official business for the Association were reimbursed for actual, necessary, and usual travel and subsistence expenses and mileage at the rate of $0.555 per mile. The Compensation and Audit

Committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director is provided below:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Total Compensation Paid During 2012
Bobby Tarp	10	8	$ 10,200
Alan Schenk	10	2	10,200
Steve Calhoun	6	5	5,600
Ricky Carothers	10	9	10,100
David Dolch	6	2	5,600
Larry D. Bridwell	4	–	4,000
Total Compensation			$ 45,700

Directors and officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $20,212 in 2012, $26,473 in 2011 and $29,661 in 2010. There was no non-cash compensation paid to directors during 2012.

Information on the Chief Executive Officer (CEO) and officer compensation is provided below.

President/CEO	Year	Annual Salary	Annual Incentive	Other*	Total
Blake Byrd	2012	$ 158,250	$ 14,095	$ 8,638	$ 180,983
Blake Byrd	2011	$ 149,335	$ 10,130	$ 8,664	$ 168,129
Blake Byrd	2010	$ 141,641	$ 10,460	$ 9,624	$ 161,725

Aggregate Number of Officers	Year	Annual Salary	Annual Incentive	Other*	Total
5	2012	$ 432,279	$ 65,198	$ 3,514	$ 500,991
5	2011	$ 412,025	$ 62,906	$ 1,878	$ 476,809
5	2010	$ 395,255	$ 50,418	$ 1,818	$ 447,491

* During 2012 and 2011, Other includes payment for unused annual leave for the senior officers; Other includes personal use of Association vehicle for the CEO. During 2010, Other includes payment for unused annual leave for the CEO and senior officers and personal use of Association vehicle for the CEO.

In addition to base salary, senior officers can earn additional compensation under an annual incentive plan which is related to the overall business performance and the individual's rating. The incentive plan is based on a fiscal year and is designed to motivate employees to exceed financial and credit quality performance targets approved by the Compensation Committee and Board of Directors. These targets typically include return on assets, credit quality, credit administration, loan volume, nonaccrual loan volume, cost of operations, permanent capital and other key ratios. Program payments for the calendar year are paid as soon as practical following the January Board meeting. In addition, loan officers included above were paid compensation based on a quarterly incentive plan tied to new loan volume and paid in the following month of each quarter.

Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included in the aggregate, is available to shareholders upon request.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 12 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

RELATIONSHIP WITH COBANK, ACB (COBANK)

The Association is materially affected by CoBank's financial condition and results of operations.

The Association's statutory obligation to borrow from CoBank is discussed in Note 7. Financial assistance agreements between the Association and CoBank are discussed in Note 8. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

CoBank is required to distribute its Annual Report to shareholders of the Association if the bank experiences a significant event that has a material effect on the Association as defined by FCA regulations.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2013, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2012 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 509 West Georgia Avenue, Anadarko, Oklahoma 73005, or may be contacted by calling (405) 247-2421. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.