2012

ANNUAL REPORT

FARM CREDIT OF WESTERN 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	**$ 453,297**	$ 381,888	$ 392,591	$ 342,780	$ 322,796
Less allowance for loan losses	**2,162**	2,149	2,056	1,994	2,069
Net loans	**451,135**	379,739	390,535	340,786	320,727
Investment in CoBank, ACB	**13,999**	NA	NA	NA	NA
Investment in U.S. AgBank, FCB	**NA**	13,215	10,825	9,614	7,805
Other assets	**16,099**	12,486	11,361	10,354	13,081
Total assets	**$ 481,233**	$ 405,440	$ 412,721	$ 360,754	$ 341,613
Obligations with maturities of one year or less	**$ 7,170**	$ 10,541	$ 5,860	$ 4,427	$ 5,751
Obligations with maturities longer than one year	**389,945**	315,791	335,585	288,312	269,788
Total liabilities	**397,115**	326,332	341,445	292,739	275,539
Protected borrower stock	**-**	3	5	9	10
Capital stock	**1,377**	1,383	1,396	1,328	1,265
Unallocated retained earnings	**82,741**	77,722	69,875	66,678	64,799
Total shareholders' equity	**84,118**	79,108	71,276	68,015	66,074
Total liabilities and shareholders' equity	**$ 481,233**	$ 405,440	$ 412,721	$ 360,754	$ 341,613

	For the Year Ended December 31				
	2012	2011	2010	2009	2008
Statement of Income Data					
Net interest income	**$ 11,173**	$ 10,389	$ 10,103	$ 9,380	$ 8,607
Patronage distribution from Farm Credit institutions	**1,689**	3,669	527	152	1,268
Tax-free recapitalization distribution due to AgBank merger	**-**	2,390	-	-	-
Provision for loan losses/(Loan loss reversal)	**89**	67	405	921	(1,071)
Noninterest expense, net	**6,503**	7,029	5,626	5,676	5,494
Provision for income taxes	**1**	5	2	58	21
Net income/Comprehensive income	**$ 6,269**	$ 9,347	$ 4,597	$ 2,877	$ 5,431

Key Financial Ratios					
For the Year					
Return on average assets	**1.43%**	2.36%	1.20%	0.82%	1.81%
Return on average shareholders' equity	**7.65%**	12.53%	6.52%	4.26%	8.18%
Net interest income as a percentage of average earning assets	**2.70%**	2.77%	2.79%	2.84%	3.05%
Net charge-offs/(recoveries) as a percentage of average net loans	**0.02%**	(0.01%)	0.10%	0.30%	(0.58%)
At Year End					
Shareholders' equity as a percentage of total assets	**17.48%**	19.51%	17.27%	18.85%	19.34%
Debt as a ratio to shareholders' equity	**4.72:1**	4.13:1	4.79:1	4.30:1	4.17:1
Allowance for loan losses as a percentage of loans	**0.48%**	**0.56%**	**0.52%**	**0.58%**	**0.64%**
Permanent capital ratio	**15.44%**	16.58%	16.16%	17.05%	18.95%
Total surplus ratio	**15.14%**	16.23%	15.80%	16.67%	18.56%
Core surplus ratio	**14.98%**	16.03%	15.62%	16.67%	18.56%
Net Income Distribution					
Cash patronage distributions paid	**$ 1,500**	$ 1,400	$ 1,000	$ 1,998	$ 2,003
Cash patronage declared	**$ 1,250**	$ 1,500	$ 1,400	$ 1,000	$ 2,000
Other					
Loans serviced for U.S. AgBank, FCB	**NA**	$ -	$ 71	$ 131	$ 152

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Western 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.fcwestok.com, or upon request. We are located at 3302 Williams Avenue, Woodward, Oklahoma 73801 or may be contacted by calling (580) 256-3465 or (800) 299-3465.

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 from the Black Mesa in the northwest part of the Panhandle in Cimarron County to near Carnegie in the southeast part of Washita County in 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 and fee based appraisal services. 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) 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 3302 Williams Avenue, Woodward, Oklahoma 73801 or may be contacted by calling (580) 256-3465 or (800) 299-3465. 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. The agricultural sectors which have been adversely affected have been dairy, poultry, hogs, fed cattle, nurseries and ethanol operations, while grain producers have been positively affected. 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 and high feed costs are stressing margins in the meat protein complexes, especially poultry. The negative impact to us from these less favorable conditions is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers.

During 2012, economic conditions in our region were generally favorable due to increased land and collateral values, commodity prices, and off-farm income sources. Expansion in the oil, gas and wind energy have had a major favorable impact in our region.

LOAN PORTFOLIO

Total loans outstanding were $453.3 million at December 31, 2012, an increase of $71.4 million, or 18.70%, from loans at December 31, 2011 of $381.9 million, and an increase $60.7 million, or 15.46%, from loans at December 31, 2010 of $392.6 million. The increase in loans was primarily due to increasing land values, a low interest rate environment and an increase in farm input costs. 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	**$ 300,101**	**66.2%**	$ 242,137	63.4%	$ 229,858	58.5%
Production and intermediate-term loans	**137,879**	**30.4%**	126,506	33.1%	149,201	38.0%
Agribusiness loans to:						
Cooperatives	**8,345**	**1.8%**	2,644	0.7%	5,714	1.5%
Processing and marketing	**4,356**	**1.0%**	6,120	1.6%	3,843	1.0%
Farm related business	**1,022**	**0.2%**	375	0.1%	287	0.1%
Rural residential real estate loans	**1,594**	**0.4%**	4,106	1.1%	3,688	0.9%
Total	**$ 453,297**	**100.0%**	$ 381,888	100.0%	$ 392,591	100.0%

Real estate mortgage loans outstanding increased 23.94% to $300.1 million, compared with $242.1 million at year-end 2011, primarily due to increasing land values and low interest rate environment. 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 8.99% to $137.9 million compared with 2011 loans of $126.5 million, primarily due to an increase in farm input costs. 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.

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	**$ 58,695**	$ 55,041	$ 71,566
Participations sold	**$ 14,364**	$ 11,309	$ 10,935

We have no purchased loans, 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 in the following table.

	2012	2011	2010
Beaver	**2.35%**	2.65%	2.36%
Beckham	**2.38%**	1.80%	1.19%
Cimarron	**3.25%**	2.83%	2.55%
Custer	**7.30%**	6.38%	5.97%
Dewey	**4.47%**	5.00%	4.62%
Ellis	**4.16%**	3.22%	3.87%
Harper	**5.31%**	5.57%	6.05%
Roger Mills	**2.77%**	3.29%	4.80%
Texas	**10.36%**	7.91%	7.87%
Washita	**5.19%**	5.40%	6.48%
Woods	**5.96%**	6.82%	6.35%
Woodward	**7.95%**	7.15%	8.50%
Other – Oklahoma	**11.26%**	11.14%	7.23%
Other – Oklahoma Participations	**5.05%**	6.33%	6.67%
Other – Kansas	**8.98%**	10.20%	8.61%
Other – Kansas Participations	**6.42%**	5.18%	7.21%
Other - Texas	**4.97%**	6.97%	5.65%
Other	**1.87%**	2.16%	4.02%
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	**61.62%**	62.28%	58.85%
Cash grain/Corn/Sorghum	**13.85%**	13.83%	13.89%
Wheat	**12.13%**	11.48%	11.74%
Peanuts/Cotton/Peppers/Watermelon	**2.13%**	1.86%	1.37%
Ag Services	**2.09%**	1.06%	1.53%
Landlords	**1.38%**	1.80%	1.21%
Hay	**1.21%**	1.17%	1.28%
Dairy	**1.05%**	1.06%	2.58%
Hogs	**0.94%**	1.08%	1.79%
Nursery	**0.22%**	0.31%	0.99%
Harvesting	**0.11%**	0.23%	0.86%
Poultry	**0.06%**	0.21%	0.20%
Other	**3.21%**	3.63%	3.71%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of cattle, wheat and various other grain producers. These commodities will most likely remain our largest concentrations as these are the primary agricultural industries in our area. 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, approximately 53% consists of borrowers with income not solely from agricultural sources, an increase from 52% for 2011, and 40% for 2010.

The principal balance outstanding at December 31, 2012 for loans $250 thousand or less accounted for 32.56% of loan volume and 85.78% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31.

	2012		2011		2010	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 147,584**	**2,087**	$ 141,068	2,119	$ 141,546	2,130
$251 - $500	**56,366**	**163**	48,307	136	49,601	142
$501 - $1,000	**70,198**	**98**	60,302	87	54,870	79
$1,001 - $5,000	**166,493**	**83**	132,211	64	146,574	72
$5,001 - $25,000	**12,656**	**2**	–	–	–	–
Total	**$ 453,297**	**2,433**	$ 381,888	2,406	$ 392,591	2,423

Loans over $5 million consist of a new real estate mortgage loan booked in 2012 and an existing agribusiness loan which had additional disbursements during 2012.

Approximately 25% of our loans outstanding is attributable to 18 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 $20.1 million at year-end 2012, $19.6 million at year-end 2011 and $17.0 million 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 and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. 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	$ 56,228	$ 44,542	$ 1,518	$ 46	$ 102,334
Standby letters of credit	66	50	49	–	165
Commercial letters of credit	–	540	–	–	540
Total commitments	$ 56,294	$ 45,132	$ 1,567	$ 46	$ 103,039

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	**$ 171**	$ –	$ 72
Production and intermediate-term	**37**	320	2,509
Agribusiness	**–**	128	–
Rural residential real estate	**–**	1	–
Total nonaccrual loans	**208**	449	2,581
Accruing loans 90 days past due:			
Real estate mortgage	**–**	390	–
Total high risk assets	**$ 208**	$ 839	$ 2,581
Nonaccrual loans to total loans	**0.05%**	0.12%	0.66%
High risk assets to total loans	**0.05%**	0.22%	0.66%
High risk assets to total shareholders' equity	**0.25%**	1.06%	3.62%

We had no loans classified as restructured or other property owned for the years presented.

Total high risk assets decreased $631 thousand, or 75.20%, to $208 thousand at December 31, 2012 compared with $839 thousand at year-end 2011. Accruing loans 90 days past due decreased $390 thousand due to the payoff of one loan in 2012.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $241 thousand compared with December 31, 2011 due to payoffs, pay downs and a charge-off of one production and intermediate-term loan. At December 31, 2012, two customers comprise 100% of total nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31.

(dollars in thousands)	**2012**	2011	2010
Nonaccrual current as to principal and interest	**$ 171**	$ 34	$ 2,395

For the years presented, we had no cash basis nonaccrual loans and no restructured loans in nonaccrual status.

High risk asset volume is anticipated to increase in the future due to the volatility and uncertainty in the general economy and the extensive drought condition in our territory.

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	**97.90%**	98.25%	95.73%
OAEM	**1.77%**	1.33%	3.38%
Substandard	**0.33%**	0.42%	0.89%
Total	**100.00%**	100.00%	100.00%

During 2012, overall credit quality improved. Loans classified as Acceptable and OAEM were 99.67% at December 31, 2012, 99.58% at December 31, 2011 and 99.11% 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. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.05% at December 31, 2012, compared with 0.37% at December 31, 2011 and 0.15% 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	**$ 2,149**	$ 2,056	$ 1,994
Charge-offs:			
Real estate mortgage	**41**	–	–
Production and intermediate-term	**116**	57	343
Total charge-offs	**157**	57	343
Recoveries:			
Real estate mortgage	**41**	–	–
Production and intermediate-term	**40**	83	–
Total recoveries	**81**	83	–
Net charge-offs /(recoveries)	**76**	(26)	343
Provision for loan losses	**89**	67	405
Balance at December 31	**$ 2,162**	$ 2,149	$ 2,056
Net charge-offs /(recoveries) to average net loans	**0.02%**	(0.01%)	0.10%

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	**$ 182**	$ 54	$ 188
Production and intermediate-term	**1,908**	2,018	1,828
Agribusiness	**70**	73	37
Rural residential real estate	**2**	4	3
Total	**$ 2,162**	$ 2,149	$ 2,056

The allowance for loan losses increased $13 thousand from December 31, 2011, to $2.2 million at December 31, 2012. The increase in allowance for loan losses was primarily due to increased loan volume. Net charge-offs of $76 thousand were recorded during 2012. Overall, charge-off activity remains low relative to the size of our loan portfolio. 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	**0.48%**	0.56%	0.52%
Impaired loans	**1,039.42%**	256.14%	79.66%
Nonaccrual loans	**1,039.42%**	478.62%	79.66%

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 mission statement is to develop business relationships with young, beginning and small farmers and ranchers who exhibit the management skills necessary to build a solid financial position, have viable operations, contribute to the agricultural community and become our profitable customers. 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	7.50%	**20.32%**	21.52%	20.86%
Beginning	25.75%	**19.84%**	23.14%	23.22%
Small	92.48%	**62.51%**	60.98%	60.55%

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:

- Continue to enhance and expand the use of our YBS Advisory Committee;
- 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.

In conjunction with our YBS goals, in 2012 we held three meetings with the YBS Advisory Committee from Clinton and took this group of individuals to Washington D.C. to meet with USDA, Oklahoma Senators and Congressmen, National Cattlemen's Beef Association, Farm Bureau and the FCA; and met with the YBS Advisory Committee from Alva twice. We continued YBS outreach programs including the Take-One-Off Program, whereby interest rates are reduced by one percent for individuals under 35, for up to 3 years. We continued to offer and obtain FSA guarantees, continued to support area 4-H and FFA programs through donations and sponsorships and continued to provide college scholarships.

Quarterly 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.

- 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.

	New Lending		**Total Portfolio**	
	Goal	**Actual**	**Goal**	**Actual**
Young	$ 10,000	$ 24,458	$ 70,000	$ 88,820
Beginning	$ 15,000	$ 21,090	$ 80,000	$ 79,136
Small	$ 25,000	$ 47,913	$ 140,000	$ 156,674

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 customized loan 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 and standby letters of credit. 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 adopted an individual lending limit maximum of 10% of permanent capital for our highest quality borrowers.

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 $6.3 million, compared with $9.3 million in 2011, and $4.6 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. 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	**$ 9,347**	$ 4,597
Increase/(Decrease) from changes in:		
Interest income	**548**	(361)
Interest expense	**236**	647
Net interest income	**784**	286
Provision for loan losses	**(22)**	338
Noninterest income	**(3,461)**	5,193
Noninterest expense	**(383)**	(1,064)
Provision for income taxes	**4**	(3)
Total (decrease)/increase in net income	**(3,078)**	4,750
Net income, current year	**$ 6,269**	$ 9,347

Return on average assets decreased to 1.43% from 2.36% in 2011, and return on average shareholders' equity decreased to 7.65% from 12.53% in 2011, primarily as a result of decreased noninterest income offset by an increase in noninterest expense.

Net Interest Income

Net interest income for 2012 was $11.2 million compared with $10.4 million for 2011 and $10.1 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 was largely due to increased loan volume. The table below 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	**$ 10,389**	$ 10,103
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(1,270)**	(1,009)
Interest rates paid	**1,010**	894
Volume of interest-bearing assets and liabilities	**997**	385
Interest income on nonaccrual loans	**47**	16
Increase in net interest income	**784**	286
Net interest income, current year	**$ 11,173**	$ 10,389

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	**2.70%**	2.77%	2.79%
Interest rate on:			
Average loan volume	**4.53%**	4.86%	5.14%
Average debt	**2.14%**	2.46%	2.75%
Interest rate spread	**2.39%**	2.40%	2.39%

The decrease in interest rate spread resulted from a 33 basis point decrease in interest rates on average loan volume and a 32 basis point decrease in interest rates on average debt. The decrease in net interest margin in addition to the change in spread was due to lower earnings on our own capital.

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 $89 thousand in 2012, compared with net provision for loan losses of $67 thousand in 2011 and $405 thousand in 2010. The provision for loan losses recorded during 2012 was primarily due to increased loan volume, charge-off on a machinery loan and a small charge-off on a cattle loan, offset by a recovery on a previously charged-off machinery loan and small recoveries on 3 previously charged-off cattle loans. The provision for loan losses recorded in 2011 was primarily due to the exceptional drought occurring throughout our territory along with partial charge-offs of two equipment loans offset partially by a recovery on a previously charged-off cattle loan and improved credit quality. The provision for loan losses recorded in 2010 was primarily due to increased loan volume and by partial charge-offs of two livestock related loans.

Noninterest Income

During 2012, we recorded noninterest income of $2.7 million, compared with $6.2 million in 2011 and $1.0 million 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 $1.6 million 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 $3.7 million in 2011. Cash patronage received from AgBank was $527 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 $2.4 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 $121 thousand, which includes cash patronage of $24 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 $5 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.

Mineral income of $512 thousand was recognized during 2012. Quarterly payments totaling $506 thousand were received from 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 $377 thousand and $338 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 $60 thousand, an increase of $45 thousand, from 2011, primarily due to conversion fees.

Noninterest Expense

Noninterest expense for 2012 increased $383 thousand, or 5.35%, to $7.5 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	**$ 4,040**	$ 3,955	$ 3,214	**2.15%**	23.1%
Occupancy & equipment	**334**	330	328	**1.21%**	0.6%
Purchased services from AgVantis	**696**	499	432	**39.48%**	15.5%
Supervisory & examination costs	**153**	143	126	**6.99%**	13.5%
Other	**2,163**	2,042	1,836	**5.93%**	11.2%
Total operating expense	**7,386**	6,969	5,936	**5.98%**	17.4%
Farm Credit Insurance Fund premium	**160**	194	163	**(17.53%)**	19.0%
Total noninterest expense	**$ 7,546**	$ 7,163	$ 6,099	**5.35%**	17.5%

For the year ended December 31, 2012, total operating expense increased $417 thousand, or 5.98%, compared with the year ended December 31, 2011, primarily due to overall increases in operating costs. During the past five years we have had good growth in high quality loan volume. This expansion has resulted in a need for more operating capacity required to service the additional loans. Salaries and employee benefits increased due to increased number of employees and normal raises. Purchased services from AgVantis increased primarily due to a change in the application of a rebate from AgVantis. Prior to 2012 this was booked as a reduction to the cost of the services; beginning in 2012 it is recognized as patronage income. Additionally there was an increase in the cost of the services purchased from AgVantis. Other expenses have increased due to increased public and member relations, donations to youth programs and professional purchased services. Farm Credit Insurance Fund premium decreased $34 thousand to $160 thousand due to a decrease in the premium rate 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.

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 and maximize debt reduction. 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 $347.4 million in 2012. The annual average principal balance of the note payable to AgBank was $311.3 million in 2011 and $304.7 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 $84.1 million, compared with $79.1 million at December 31, 2011 and $71.3 million at December 31, 2010. The increase of $5.0 million in shareholders' equity reflects net income, 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	**4.72:1**	4.13:1	4.79:1
Shareholders' equity as a percent of net loans	**18.65%**	20.83%	18.25%
Shareholders' equity as a percent of total assets	**17.48%**	19.51%	17.27%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2011 primarily due to the growth in loan volume.

Retained Earnings

Our retained earnings increased $5.0 million to $82.7 million at December 31, 2012 from $77.7 million at December 31, 2011 and increased $12.8 million from $69.9 million at December 31, 2010. The increase was a result of net income of $6.3 million, partially offset by $1.3 million 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 1.5 million in 2012, $1.4 million in 2011 and $1.0 million in 2010. During 2012, we declared patronage distributions of $1.25 million to be paid in April 2013.

Stock

Our total stock decreased $9 thousand to $1.377 million at December 31, 2012, from $1.386 million at December 31, 2011 and decreased from $1.4 million at December 31, 2010. The decrease was due to $185 thousand of stock

retirements, partially offset by $176 thousand of stock issuances. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

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%	**15.44%**	16.58%	16.16%
Total surplus ratio	7.00%	**15.14%**	16.23%	15.80%
Core surplus ratio	3.50%	**14.98%**	16.03%	15.62%

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 met 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 9 member board that provides direction and oversees our management. Of these directors, 8 are elected by the shareholders and 1 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 4 members of the Board of Directors. During 2012, 5 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 WESTERN OKLAHOMA

Our roots run deep.

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580 327-0870
866 903-0870
Fax 580 327-6952

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Clinton, OK 73601
580 323-0342
800 722-3004
Fax 580 323-0650

ELK CITY
101 Carter Road
Elk City, OK 73644
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888 821-9202
Fax 580 821-9208

GUYMON
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Guymon, OK 73942
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866 691-2267
Fax 580 338-5111

WOODWARD
3302 Williams Ave.
Woodward, OK 73801
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800 299-3465
Fax 580 256-5982

REPORT OF MANAGEMENT

The financial statements of Farm Credit of Western Oklahoma, ACA (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 Western Oklahoma, ACA's 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.

Jimmie L. Purvine
Chairman of the Board

John Grunewald
President and Chief Executive Officer

Jamie Shirkey
Chief Financial Officer

March 15, 2013

Farm Credit
OF WESTERN OKLAHOMA

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Fax 580 338-5111

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800 299-3465
Fax 580 256-5982

AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes 4 members from the Board of Directors of Farm Credit of Western Oklahoma, ACA (Association). In 2012, 5 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 $18,023 for audit services, $6,800 for tax services.

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.

LaVern W. Phillips, Chairman of the Audit Committee

<u>Audit Committee Members</u>
Jimmie Purvine
Steve Semmel
Ronald W. White

March 15, 2013

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Farm Credit of Western 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 Western 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	**$ 453,297**	$ 381,888	$ 392,591
Less allowance for loan losses	**2,162**	2,149	2,056
Net loans	**451,135**	379,739	390,535
Cash	**6,247**	3,113	3,556
Accrued interest receivable	**5,707**	5,114	5,140
Investment in CoBank, ACB	**13,999**	NA	NA
Investment in U.S. AgBank, FCB	**NA**	13,215	10,825
Premises and equipment, net	**1,692**	1,749	1,786
Prepaid benefit expense	**510**	521	605
Other assets	**1,943**	1,989	274
Total assets	**$ 481,233**	$ 405,440	$ 412,721
LIABILITIES			
Note payable to CoBank, ACB	**$ 387,008**	NA	NA
Note payable to U.S. AgBank, FCB	**NA**	312,833	332,504
Advance conditional payments	**5,248**	8,365	3,804
Accrued interest payable	**2,937**	2,958	3,081
Patronage distributions payable	**1,250**	1,500	1,400
Accrued benefits liability	**110**	126	144
Other liabilities	**562**	550	512
Total liabilities	**397,115**	326,332	341,445
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	**-**	3	5
Capital stock	**1,377**	1,383	1,396
Unallocated retained earnings	**82,741**	77,722	69,875
Total shareholders' equity	**84,118**	79,108	71,276
Total liabilities and shareholders' equity	**$ 481,233**	$ 405,440	$ 412,721

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	**$ 18,758**	$ 18,210	$ 18,571
Total interest income	**18,758**	18,210	18,571
INTEREST EXPENSE			
Note payable to CoBank, ACB	**7,507**	NA	NA
Note payable to U.S. AgBank, FCB	**NA**	7,743	8,426
Other	**78**	78	42
Total interest expense	**7,585**	7,821	8,468
Net interest income	**11,173**	10,389	10,103
Provision for loan losses	**89**	67	405
Net interest income after provision for loan losses	**11,084**	10,322	9,698
NONINTEREST INCOME			
Financially related services income	**32**	33	55
Loan fees	**60**	15	19
Patronage distribution from Farm Credit institutions	**1,689**	3,669	527
Farm Credit Insurance Fund distribution	**377**	-	338
Mineral income	**512**	31	12
Tax-free recapitalization distribution due to AgBank merger	**-**	2,390	-
Other noninterest income	**62**	55	49
Total noninterest income	**2,732**	6,193	1,000
NONINTEREST EXPENSE			
Salaries and employee benefits	**4,040**	3,955	3,214
Occupancy and equipment	**334**	330	328
Purchased services from AgVantis, Inc.	**696**	499	432
Farm Credit Insurance Fund premium	**160**	194	163
Supervisory and examination costs	**153**	143	126
Other noninterest expense	**2,163**	2,042	1,836
Total noninterest expense	**7,546**	7,163	6,099
Income before income taxes	**6,270**	9,352	4,599
Provision for income taxes	**1**	5	2
Net income/Comprehensive income	**$ 6,269**	$ 9,347	$ 4,597

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	Total Shareholders' Equity
Balance at December 31, 2009	$ 9	$ 1,328	$ 66,678	$ 68,015
Net income/Comprehensive income			4,597	4,597
Stock issued	-	208		208
Stock retired	(4)	(140)		(144)
Patronage distributions: Cash			(1,400)	(1,400)
Balance at December 31, 2010	5	1,396	69,875	71,276
Net income/Comprehensive income			9,347	9,347
Stock issued	-	159		159
Stock retired	(2)	(172)		(174)
Patronage distributions: Cash			(1,500)	(1,500)
Balance at December 31, 2011	3	1,383	77,722	79,108
Net income/Comprehensive income			6,269	6,269
Stock issued	-	176		176
Stock retired	(3)	(182)		(185)
Patronage distributions: Cash			(1,250)	(1,250)
Balance at December 31, 2012	**$ -**	**$ 1,377**	**$ 82,741**	**$ 84,118**

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/Comprehensive income	**$ 6,269**	$ 9,347	$ 4,597
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**262**	272	260
Provision for loan losses	**89**	67	405
Tax-free recapitalization distribution due to AgBank merger	**-**	(2,390)	-
Allocated patronage from AgVantis	**(97)**	-	-
Gains on sales of premises and equipment	**(25)**	(12)	(21)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(593)**	26	(443)
Decrease in prepaid benefit expense	**11**	84	103
Decrease/(Increase) in other assets	**143**	(1,715)	(42)
Decrease in accrued interest payable	**(21)**	(123)	(96)
Decrease in accrued benefits liability	**(16)**	(18)	(18)
Increase/(Decrease) in other liabilities	**12**	38	(395)
Total adjustments	**(235)**	(3,771)	(247)
Net cash provided by operating activities	**6,034**	5,576	4,350
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase)/Decrease in loans, net	**(71,485)**	10,729	(50,154)
Increase in investment in CoBank/AgBank	**(784)**	-	(1,211)
Expenditures for premises and equipment, net	**(180)**	(223)	(152)
Net cash (used in)/provided by investing activities	**(72,449)**	10,506	(51,517)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(repayment of) note payable to CoBank/AgBank	**74,175**	(19,671)	47,369
(Decrease)/Increase in advance conditional payments	**(3,117)**	4,561	1,446
Protected borrower stock retired	**(3)**	(2)	(4)
Capital stock retired	**(182)**	(172)	(140)
Capital stock issued	**176**	159	208
Cash patronage distributions paid	**(1,500)**	(1,400)	(1,000)
Net cash provided by/(used in) financing activities	**69,549**	(16,525)	47,879
Net increase/(decrease) in cash	**3,134**	(443)	712
Cash at beginning of year	**3,113**	3,556	2,844
Cash at end of year	**$ 6,247**	$ 3,113	$ 3,556
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 7,606**	$ 7,944	$ 8,564
Income taxes	**$ 5**	$ 2	$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Tax-free recapitalization distribution due to AgBank merger	**$ -**	$ 2,390	$ -
Allocated patronage from AgVantis	**$ 97**	$ -	$ -
Net charge-offs/(recoveries)	**$ 76**	$ (26)	$ 343
Patronage distributions payable	**$ 1,250**	$ 1,500	$ 1,400

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 Western Oklahoma, ACA and its subsidiaries, Farm Credit of Western Oklahoma, FLCA, (Federal Land Credit Association) (FLCA)) and Farm Credit of Western 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 Beaver, Beckham, Cimarron, Custer, Dewey, Ellis, Harper, Roger Mills, Texas, Washita, Woods and Woodward 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, advance conditional payment accounts and provides additional services to borrowers such as fee appraisals.

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 3302 Williams Avenue, Woodward, Oklahoma 73801-6944 or calling (580) 256-3465 or (800) 299-3465. 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 Western Oklahoma, FLCA and Farm Credit of Western 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, 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 lives for the buildings are 10 to 45 years and range from 2 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 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.

F. 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.

G. 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.

H. 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.

I. 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.

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in the Bank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated 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.

J. 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.

K. 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 14.

L. 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	**$ 300,101**	$ 242,137	$ 229,858
Production and intermediate-term	**137,879**	126,506	149,201
Agribusiness:			
Loans to cooperatives	**8,345**	2,644	5,714
Processing and marketing	**4,356**	6,120	3,843
Farm related business	**1,022**	375	287
Rural residential real estate	**1,594**	4,106	3,688
Total loans	**$ 453,297**	$ 381,888	$ 392,591

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	$ 34,382	$ 12,494	$ 266	$ 1	$ 34,648	$ 12,495
Production and intermediate-term	19,691	1,723	–	–	19,691	1,723
Agribusiness	4,356	–	–	146	4,356	146
Total	$ 58,429	$ 14,217	$ 266	$ 147	$ 58,695	$ 14,364

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	**$ 279,321**	**61.62%**	$ 237,840	62.28%	$ 231,040	58.85%
Cash Grain/Corn/Sorghum	**62,782**	**13.85%**	52,815	13.83%	54,531	13.89%
Wheat	**54,985**	**12.13%**	43,841	11.48%	46,090	11.74%
Peanuts/Cotton/Peppers/Watermelon	**9,655**	**2.13%**	7,103	1.86%	5,379	1.37%
Ag Services	**9,474**	**2.09%**	4,048	1.06%	6,007	1.53%
Landlords	**6,255**	**1.38%**	6,874	1.80%	4,750	1.21%
Hay	**5,485**	**1.21%**	4,468	1.17%	5,025	1.28%
Dairy	**4,760**	**1.05%**	4,048	1.06%	10,129	2.58%
Hogs	**4,261**	**0.94%**	4,124	1.08%	7,027	1.79%
Nursery	**997**	**0.22%**	1,184	0.31%	3,887	0.99%
Harvesting	**499**	**0.11%**	878	0.23%	3,376	0.86%
Poultry	**272**	**0.06%**	802	0.21%	785	0.20%
Other	**14,551**	**3.21%**	13,863	3.63%	14,565	3.71%
Total	**$ 453,297**	**100.00%**	$ 381,888	100.00%	$ 392,591	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 $20,063 at year-end 2012, $19,649 at year-end 2011 and $16,988 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	**98.50%**	98.25%	95.96%
OAEM	**1.44%**	1.35%	3.81%
Substandard	**0.06%**	0.40%	0.23%
Total	**100.00%**	100.00%	100.00%

(continued from previous page)	**2012**	2011	2010
Production and intermediate-term			
Acceptable	**97.94%**	98.23%	95.14%
OAEM	**1.84%**	1.43%	2.92%
Substandard	**0.22%**	0.34%	1.94%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**84.19%**	98.57%	98.65%
OAEM	**8.29%**	–	1.29%
Substandard	**7.52%**	1.43%	0.06%
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**100.00%**	98.75%	97.10%
OAEM	**–**	–	1.54%
Substandard	**–**	1.25%	1.36%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**97.90%**	98.25%	95.73%
OAEM	**1.77%**	1.33%	3.38%
Substandard	**0.33%**	0.42%	0.89%
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:			
Current as to principal and interest	**$ 171**	$ 34	$ 2,395
Past due	**37**	415	186
Total nonaccrual loans	**208**	449	2,581
Impaired accrual loans:			
90 days or more past due	**–**	390	–
Total impaired accrual loans	**–**	390	–
Total impaired loans	**$ 208**	$ 839	$ 2,581

There were no loans classified as accruing restructured for the years presented.

Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2012 totaled $712.

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	**$ 171**	$ –	$ 72
Production and intermediate-term	**37**	320	2,509
Agribusiness	**–**	128	–
Rural residential real estate	**–**	1	–
Total nonaccrual loans	**208**	449	2,581
Accruing loans 90 days past due			
Real estate mortgage	**–**	390	–
Total accruing loans 90 days past due	**–**	390	–
Total impaired loans	**$ 208**	$ 839	$ 2,581

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 no related allowance for credit losses:					
Real estate mortgage	$ 171	$ 181		$ 914	$ 55
Production and intermediate-term	37	1,498		163	12
Loans to cooperatives	–	–		78	12
Rural residential real estate	–	–		–	2
Total	$ 208	$ 1,679		$ 1,155	$ 81

	Recorded Investment at 12/31/11	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 390	$ 360		$ 99	$ 18
Production and intermediate-term	320	1,866		323	6
Loans to cooperatives	128	124		33	–
Rural residential real estate	1	3		1	–
Total	$ 839	$ 2,353		$ 456	$ 24

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

There were no impaired loans with a related allowance for the periods presented.

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	**$ 67**	$ 20	$ 4
Restructured	**–**	–	2
90 days or more past due	**14**	4	1
Interest income recognized on impaired loans	**$ 81**	$ 24	$ 7

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	**$ 70**	$ 118	$ 253
Less: interest income recognized	**67**	20	6
Interest income not recognized	**$ 3**	$ 98	$ 247

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	$ 40	$ –	$ 40	$ 303,664	$303,704	$ –
Production and intermediate-term	162	37	199	139,730	139,929	–
Agribusiness	8	–	8	13,759	13,767	–
Rural residential real estate	–	–	–	1,604	1,604	–
Total	$ 210	$ 37	$ 247	$ 458,757	$459,004	$ –

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	$ 1,037	$ 390	$ 1,427	$ 243,947	$245,374	$ 390
Production and intermediate-term	22	287	309	127,927	128,236	–
Agribusiness	–	128	128	9,115	9,243	–
Rural residential real estate	–	–	–	4,149	4,149	–
Total	$ 1,059	$ 805	$ 1,864	$ 385,138	$387,002	$ 390

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 troubled debt restructurings during 2012 or 2011.

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	$ 54	$ 41	$ 41	$ 128	$ 182
Production and intermediate-term	2,018	116	40	(34)	1908
Agribusiness	73	–	–	(3)	70
Rural residential real estate	4	–	–	(2)	2
Total	$ 2,149	$ 157	$ 81	$ 89	$ 2,162

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2011
Real estate mortgage	$ 188	$ –	$ –	$ (134)	$ 54
Production and intermediate-term	1,828	57	83	164	2,018
Agribusiness	37	–	–	36	73
Rural residential real estate	3	–	–	1	4
Total	$ 2,056	$ 57	$ 83	$ 67	$ 2,149

	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	$ –	$ 182	$ 171	$ 303,533
Production and intermediate-term	–	1,908	37	139,892
Agribusiness	–	70	–	13,767
Rural residential real estate	–	2	–	1,604
Total	$ –	$ 2,162	$ 208	$ 458,796

	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	$ –	$ 54	$ 390	$ 244,984
Production and intermediate term	–	2,018	320	127,916
Agribusiness	–	73	128	9,115
Rural residential real estate	–	4	1	4,148
Total	$ –	$ 2,149	$ 839	$ 386,163

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	**$ 158**	$ 158	$ 145
Buildings and leasehold improvements	**2,427**	2,427	2,428
Furniture, equipment and automobiles	**1,538**	1,439	1,461
	4,123	4,024	4,034
Less: accumulated depreciation	**2,431**	2,275	2,248
Total	**$ 1,692**	$ 1,749	$ 1,786

NOTE 6 – 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 $410 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 2.16 percent for the year ended December 31, 2012, compared with 2.49 percent at December 31, 2011, and 2.77 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	**$ 70,625**	$ 67,945	$ 60,713
Average rates	**0.26%**	0.29%	0.41%

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 7 – 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 amount of the borrower's combined loan volume.

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 15.44 percent, total surplus ratio was 15.14 percent and core surplus ratio was 14.98 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 Common Stock (Nonvoting, at-risk, no shares outstanding) - Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.

Class B Common Stock (Voting, at-risk, 274,302 shares outstanding) - Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one

share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class C Common Stock (Nonvoting, at-risk, 1,000 shares outstanding) - Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class D Common Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) – Issued to CoBank or to any person through direct sale.

Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and CoBank) - 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) - Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class G Common Stock (Nonvoting, protected, 61 shares outstanding) - Issued only to those individuals and entities who held the same class of stock in a predecessor to the Association and as necessary for conversions from Class F Common Stock. No further shares of Class G Common Stock will be issued. It must be retired upon repayment of the loan.

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 $1,500 in 2012, $1,400 in 2011, and $1,000 in 2010 and declared a $1,250 patronage in 2012 to be distributed in April 2013.

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, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

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 19.96 percent of its patronage-sourced net income to its patrons.

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

	2012	2011	2010
CoBank	**$ 1,563**	$ N/A	$ N/A
AgBank	**N/A**	3,669	527
AgVantis	**121**	–	–
Farm Credit Foundations	**5**	–	–
Total	**$ 1,689**	$ 3,669	$ 527

Patronage distributed from CoBank and 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 9 – INCOME TAXES

The provision for income taxes follows.

	Year Ended December 31		
	2012	2011	2010
Current:			
Federal	**$ 1**	$ 4	$ 1
State	**–**	1	1
Provision for income taxes	**$ 1**	$ 5	$ 2

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	**$ 2,131**	$ 3,180	$ 1,564
State tax, net		1	–
Effect of non-taxable FLCA subsidiary	**(1,895)**	(2,653)	(1,362)
Patronage distributions		(78)	(232)
Change in valuation allowance	**(25)**	(240)	16
Patronage refunds to borrowers	**(209)**	–	–
Effect of tax-free recapitalization distribution from Bank merger	**–**	(201)	–
Prior year return to provision difference	**–**	–	17
Other	**(1)**	(4)	(1)
Provision for income taxes	**$ 1**	$ 5	$ 2

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2012	2011	2010
Deferred income tax assets:			
Allowance for loan losses	**$ 296**	$ 282	$ 332
Nonaccrual loan interest	**7**	62	79
Depreciation	**36**	36	35
Charitable contribution carryover	**2**	2	2
Net operating loss carryforwards	**40**	40	40
Gross deferred tax assets	**381**	422	488
Deferred tax asset valuation allowance	**(168)**	(196)	(464)
Deferred income tax liabilities:			
Bank patronage allocation	**(187)**	(200)	–
Sale of fixed assets	**(3)**	(3)	(3)
Depletion	**(23)**	(23)	(21)
Gross deferred tax liability	**(213)**	(226)	(24)
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 $168 in 2012, $196 in 2011 and $464 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 2024 to 2026.

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 10 – 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, 2011 and $119.7 million 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 $741 in 2012, $458 in 2011, and $369 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 $730 in 2012, $374 in 2011, and $267 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 $820 thousand. 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 $5 in 2012, $6 in 2011 and $3 in 2010. These expenses are equal to the Association's cash contributions for each year.

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 $196 in 2012, $191 in 2011 and $162 in 2010.

NOTE 11 – 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 a year. 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	**$ 9,713**	$ 10,783	$ 8,760
Repayments	**$ 8,984**	$ 10,696	$ 8,698
Ending balance	**$ 7,488**	$ 6,776	$ 6,574

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.

In October 2012, the Association paid $16 to A&L Cattle, which is owned by Director Bobbie Apple, for services related to a prospective customer event.

The Association also has business relationships with certain other System entities. The Association paid $696 in 2012, $499 in 2011 and $432 in 2010 to AgVantis for technology services and $80 in 2012, $83 in 2011 and $80 in 2010 to the Bank for operational services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – 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 and commercial letters of 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. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2012, $102,334 of commitments to extend credit and $540 of commercial letters of 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 and letters of credit 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.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2012, $165 of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2013 to 2017. The maximum potential amount of future payments the Association is required to make under the guarantees is $165.

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

NOTE 14 – 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.

The Association has assets held in nonqualified benefit trusts measured at fair value on a recurring basis that are determined to be Level 1 of $3 at December 31, 2012. The Association had no assets measured at fair value on a recurring basis for 2011 or 2010. The Association had no liabilities measured at fair value on a recurring basis for the periods presented.

	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Assets:					
2012					
Loans	**$ –**	**$ –**	**$ 212**	**$ 212**	**$ 99**
2011					
Loans	$ –	$ –	$ 32	$ 32	$ 39
2010					
Loans	$ –	$ –	$ 2,418	$ 2,418	$ 323

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	**$ 451,135**	**$ 453,094**	$ 379,739	$ 383,937	$ 390,535	$ 392,964
Cash	**$ 6,247**	**$ 6,247**	$ 3,113	$ 3,113	$ 3,556	$ 3,556
Assets held in nonqualified benefits trusts	**$ 3**	**$ 3**	$ –	$ –	$ –	$ –
Financial liabilities:						
Note payable to CoBank	**$ 387,008**	**$ 391,295**	NA	NA	NA	NA
Note payable to AgBank	**NA**	**NA**	$ 312,833	$ 317,536	$ 332,504	$ 335,054
Advance conditional payments	**$ 5,248**	**$ 5,248**	$ 8,365	$ 8,365	$ 3,804	$ 3,804

NA – Not available.

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:

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.

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.

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 15 – 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	**$ 2,690**	**$ 2,759**	**$ 2,854**	**$ 2,870**	**$ 11,173**
Provision for loan losses/(Loan loss reversal)	**92**	**99**	**(32)**	**(70)**	**89**
Noninterest expenses, net	**1,725**	**755**	**1,016**	**1,319**	**4,815**
Net income	**$ 873**	**$ 1,905**	**$ 1,870**	**$ 1621**	**$ 6,269**

	2011				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,681	$ 2,604	$ 2,571	$ 2,533	$ 10,389
Provision for loan losses/(Loan loss reversal)	43	(2)	(12)	38	67
Noninterest expenses/(income), net	129	1,544	1,569	(2,267)	975
Net income	$ 2,509	$ 1,062	$ 1,014	$ 4,762	$ 9,347

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,658	$ 2,350	$ 2,480	$ 2,615	$ 10,103
Provision for loan losses/(Loan loss reversal)	343	76	(10)	(4)	405
Noninterest expenses, net	759	1,340	1,323	1,679	5,101
Net income	$ 1,556	$ 934	$ 1,167	$ 940	$ 4,597

NOTE 16 – 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
3302 Williams Avenue Woodward, Oklahoma	Headquarters Office	Owned
2600 Modelle Avenue Clinton, Oklahoma	Branch Office	Owned
2143 Highway No. 64 Guymon, Oklahoma	Branch Office	Owned
219 Oklahoma Blvd Alva, Oklahoma	Branch Office	Owned
101 Carter Road Elk City, Oklahoma	Branch Office	Rented
430 N. Broadway Taloga, Oklahoma	Satellite Office	Owned
106 East 1st Street Cordell, Oklahoma	Satellite Office	Rented

Legal Proceedings and Enforcement Actions

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, “Regulatory Enforcement Matters,” and Note 13 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 7 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 6 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 13 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

Jimmie Purvine - Chairman. Mr. Purvine was elected to the board in May 2005. For the past five years, he has been involved in the following agricultural enterprises: wheat, milo, soybeans, corn, silage, beans, cow/calf and stockers. He is a Board Member and past treasurer of the Dewey County Conservation District and is a former county committee member for Dewey Farm Service Agency. His term expires in 2014.

Ronald W. White - Vice Chairman. Mr. White has been a member of the board since June 1988. For the past five years he has been involved in the following agricultural enterprises: corn and wheat. He is a director of Tri County Electric, a provider of electric power for the Oklahoma Panhandle and surrounding states and was the owner of R & K Trailers LLC, which did lease livestock trailers to Brent White Transportation LLC. His term expires in 2015.

Bobbie Apple - Director. Mr. Apple has been a member of the board since May 1992. For the past five years he has been involved in the following agricultural enterprises: cow/calf, stockers and taking cattle in on a gain basis. He is part owner and operator of Hitching Post Bed and Breakfast and log cabins in Kenton, which is a bed and breakfast plus hunting lease business; and is a board member of the Cimarron Memorial Hospital, a community hospital. His term expires in 2014.

Ken Gore - Director. Mr. Gore has been a member of the board since November 1997. For the past five years he has been involved in the following agricultural enterprises: wheat, hay production, cow/calf, stockers and taking cattle in on a gain basis. His term expires in 2013.

James E. Hardy - Director. Mr. Hardy has been a member of the board since September 1986. For the past five years he has been involved in wheat and hay production, cow/calf, registered Angus cattle and stocker cattle. He retired in April 2011 as the Activities Officer II at the William S. Key Correctional Facility, a minimum security prison. His term expires in 2014.

Kenton Javorsky - Director. Mr. Javorsky has been a member of the board since November 2009. For the past five years he has been involved in the following agricultural enterprises: wheat, cotton, milo, sesame, cow-calf and custom cotton harvesting and some custom planting. He is President of Welderson Farms Inc, a family farming operation; part owner of A&K Skid Steer Service, a cedar tree removal business; on the Board of Directors of Midwest Farmer's Coop, a cotton gin, feed, fertilizer and fuel coop; and board chairman of the Western Oklahoma Christian School, a private elementary school in Clinton. His term will expire in 2015.

Jimmie Musick - Director. Mr. Musick has been a member of the board since September 1988. For the past five years he has been involved in the following agricultural enterprises: wheat, alfalfa hay, cotton, milo, corn and stocker cattle. He is owner of Musick Farms, a family farming operation and an order buyer for Cross Roads Livestock; owner of Musick and Varner Funeral Home, LLC, a funeral home business located in Cordell and Sentinel. He is on the board of National Wheat Growers Foundation, past president of Oklahoma Wheat Growers, Chairman of Washita County Health Board, Chairman of the Washita County

Excise Board, and is currently a member of and in 2009 was Chairman of the former U.S. AgBank, FCB Stockholders Advisory Council now CoBank. His term expires in 2013.

LaVern Phillips - Appointed Director. Mr. Phillips has served as appointed director on the board since February 1996. For the past twenty-four years he has been employed by Woodward Industrial Foundation, an economic development business, and serves on the Health Services Foundation, an assisted living provider. His term expires in 2015.

Steve Semmel - Director. Mr. Semmel was elected to the board in May 2003. For the past five years he has been involved in the following agricultural enterprises: wheat and hay production, improved grasses, cow/calf, stocker and feedlot cattle. He is a partner with his son in S & S Farm & Ranch, a cattle and wheat business; a partner in the Woodward NAPA, an auto parts store; and OK Rental Equipment, an oilfield equipment rental business. Mr. Semmel is treasurer for the Woodward Elks Rodeo. His term expires in 2015.

SENIOR OFFICERS

John Grunewald - President and CEO. Mr. Grunewald has served in the Farm Credit System since June 2, 1980. He has served as President/CEO since 1992. He is a board member on the Farm Bureau Foundation, an organization to promote Oklahoma agriculture; a board member for Oklahoma Grain & Stocker Producers, an organization to promote and benefit grain and stocker producers in Oklahoma; on the Advisory Board for the Oklahoma Agricultural Enhancement Program, an organization to develop agriculture programs in the state of Oklahoma; and a past board member of the National Young Farmers Education Association, an organization to promote young farmers and ranchers, and past board member of the Panhandle Economic Development, a organization to promote economic growth in the Oklahoma Panhandle.

Mike McDonald - Chief Credit Officer. Mr. McDonald has served in the Farm Credit System since January 31, 1996. He has served as Chief Credit Officer since December 2003. He also has a part-time farming and ranching operation and is a director for Northwest Travelers, Inc., a summer baseball program.

Jamie Shirkey - Chief Financial Officer. Mrs. Shirkey has served in the Farm Credit System since February 16, 1979. She has served as Chief Financial Officer since 1989 and also served as Branch Manager – Vice President of the Elk City office from 2008 through 2009.

Greg Livingston - Chief Lending Officer. Mr. Livingston has served in the Farm Credit System since January 2, 1992. He has served as Chief Lending Officer since January 2008. Mr. Livingston served as Chief Operations Officer from 2005 through 2007 and as Vice President of Business Development and Marketing from 2003 through 2004. He also has a part-time farming and ranching operation and serves on the Dewey County FSA Board, a government service agency for farmers; serves on the Dewey County Fair Board, an advisory group for a county fair association; and on the Seiling Cemetery Board.

Curtis Constien - Chief Operations Officer. Mr. Constien has served in the Farm Credit System since May 19, 1980. He has served as Chief Operations Officer since January 2008. Mr. Constien served as Branch Manager – Vice President of the Clinton office from 1989 through 2007.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $400 per day, $150 for conference calls and were reimbursed mileage at the rate of $0.555 per mile, plus $20 per hour driving time. Some of the Compensation committee and Audit committee meetings were held in conjunction with the regular board meetings or other meetings, so no additional compensation was paid to the directors for these meetings. However, two additional Audit committee meetings were held. Compensation for those meetings was $400 per day and $150 for conference call, plus $20 per hour driving time.

Additional information for each director is provided below:

Name	Number of Days Served at		Compensation for		Total Compensation Paid During 2012
	Board Meetings	Other Official Activities	Board Meetings and Other Official Duties	Audit Committee	
Jimmie Purvine	9	12	$ 9,070	$ 740	$ 9,810
Ronald W. White	9	9	8,570	1,110	9,680
Bobbie Apple	9	13	10,480	–	10,480
Ken Gore	8	8	6,870	–	6,870
James E. Hardy	9	8	6,980	–	6,980
Kenton Javorsky	9	8	7,420	–	7,420
Jimmie Musick	8	9	7,730	–	7,730
LaVern Phillips	9	7	5,300	1,200	6,500
Steve Semmel	9	9	7,500	950	8,450
Total Compensation			$ 69,920	$ 4,000	$ 73,920

Directors and senior 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 $86,484 in 2012, $83,481 in 2011 and $83,991 in 2010. There was no non-cash compensation paid to directors as a group during 2012.

Required senior officer compensation information is included in the Association's Annual Meeting Information Statement (AMIS) mailed to all shareholders. The AMIS is available for public inspection at the Association office. Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included, is available and will be disclosed 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 11 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 6. Financial assistance agreements between the Association and CoBank are discussed in Note 7. 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 3302 Williams Avenue, Woodward, Oklahoma 73801-6944, or may be contacted by calling (580) 256-3465 or (800) 299-3465. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.