2020 Annual Report

FINANCIAL STRENGTH BUILT FOR THE FUTURE OF AGRICULTURE

Farm Credit
Western Oklahoma

www.farmcreditloans.com

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2020	2019	2018	2017	2016
Statement of Condition Data					
Loans	**$ 938,660**	$ 881,012	$ 808,273	$ 755,515	$ 767,955
Less allowance for loan losses	**1,827**	1,862	1,909	2,394	2,623
Net loans	**936,833**	879,150	806,364	753,121	765,332
Investment in CoBank, ACB	**30,828**	28,474	25,595	25,467	25,369
Other assets	**33,938**	33,216	30,252	28,048	26,149
Total assets	**$ 1,001,599**	$ 940,840	$ 862,211	$ 806,636	$ 816,850
Obligations with maturities of one year or less	**$ 17,917**	$ 14,688	$ 13,969	$ 12,513	$ 14,365
Obligations with maturities longer than one year	**805,810**	756,048	686,711	642,359	659,945
Reserve for unfunded commitments	**518**	445	471	407	374
Total liabilities	**824,245**	771,181	701,151	655,279	674,684
Capital stock	**2,058**	2,026	1,966	1,971	2,002
Additional paid-in capital	**33,619**	33,619	33,619	33,619	33,619
Unallocated retained earnings	**141,994**	134,095	125,521	115,842	106,610
Accumulated other comprehensive income/(loss)	**(317)**	(81)	(46)	(75)	(65)
Total shareholders' equity	**177,354**	169,659	161,060	151,357	142,166
Total liabilities and shareholders' equity	**$ 1,001,599**	$ 940,840	$ 862,211	$ 806,636	$ 816,850

	For the Year Ended December 31				
	2020	2019	2018	2017	2016
Statement of Income/(Expense) Data					
Net interest income	**$ 23,578**	$ 22,104	$ 20,428	$ 20,687	$ 19,781
Patronage distribution from Farm Credit institutions	**3,395**	2,856	3,259	2,872	3,144
(Provision for credit losses)/Credit loss reversal	**(76)**	71	235	(367)	(503)
Noninterest expense, net	**(15,741)**	(12,955)	(11,485)	(11,457)	(13,788)
Provision for income taxes	**(7)**	(2)	(8)	(3)	-
Net income	**$ 11,149**	$ 12,074	$ 12,429	$ 11,732	$ 8,634
Comprehensive income	**$ 10,913**	$ 12,039	$ 12,458	$ 11,722	$ 8,597

	2020	2019	2018	2017	2016
Key Financial Ratios					
For the Year					
Return on average assets	**1.15%**	1.35%	1.53%	1.47%	1.10%
Return on average shareholders' equity	**6.36%**	7.22%	7.89%	7.93%	6.15%
Net interest income as a percentage of average earning assets	**2.60%**	2.64%	2.69%	2.76%	2.66%
Net charge-offs as a percentage of average net loans	**<0.01%**	<0.01%	0.02%	0.08%	<0.01%
At Year End					
Shareholders' equity as a percentage of total assets	**17.71%**	18.03%	18.68%	18.76%	17.40%
Debt as a ratio to shareholders' equity	**4.65:1**	4.55:1	4.35:1	4.33:1	4.75:1
Allowance for loan losses as a percentage of loans	**0.19%**	0.21%	0.24%	0.32%	0.34%
Common equity tier 1 (CET1) capital ratio	**16.58%**	16.96%	17.38%	16.83%	N/A
Tier 1 capital ratio	**16.58%**	16.96%	17.38%	16.83%	N/A
Total regulatory capital ratio	**16.85%**	17.23%	17.73%	17.31%	N/A
Tier 1 leverage ratio	**15.63%**	16.02%	16.40%	15.95%	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**17.16%**	17.34%	17.83%	17.42%	N/A
Permanent capital ratio	**16.62%**	16.99%	17.43%	16.90%	16.30%
Total surplus ratio	**N/A**	N/A	N/A	N/A	16.03%
Core surplus ratio	**N/A**	N/A	N/A	N/A	16.03%
Net Income Distribution					
Cash patronage distributions paid	**$ 3,500**	$ 2,750	$ 2,500	$ 2,000	$ 2,200
Cash patronage declared	**$ 3,250**	$ 3,500	$ 2,750	$ 2,500	$ 2,000

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA (Association) for the year ended December 31, 2020. 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. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Merger with AgPreference, ACA
- 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 73801-6944 or may be contacted by calling (580) 256-3465 or (800) 299-3465.

MERGER WITH AGPREFERENCE, ACA

In March 2020, the boards of directors of Farm Credit of Western Oklahoma, ACA (Western Oklahoma) and AgPreference ACA (AgPreference) approved a letter of intent to pursue a merger. In August 2020, a merger application was submitted to Farm Credit Administration (FCA), the Farm Credit System regulator. On October 16, 2020, the FCA granted preliminary approval of the merger subject to certain conditions. On November 20, 2020, AgPreference and Western Oklahoma announced that their voting stockholders overwhelmingly approved the proposed plan of merger between the two associations. Final approval from FCA was received on December 28, 2020. The merger was effective on January 1, 2020. The merger successfully united two outstanding organizations that created a financial institution of greater capital, capacity, and human resources to serve agriculture and rural Oklahoma. The merged association will conduct business as Farm Credit of Western Oklahoma, ACA with headquarters located in Woodward, Oklahoma. John Grunewald will be the President and Chief Executive Officer of the newly formed association.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2020, we are one of 68 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 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 south central Oklahoma.

The counties in our territory are listed in Note 1 of the accompanying consolidated 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 and term life insurance, advance conditional payment accounts, vehicle and equipment leasing through Farm Credit Leasing and fee appraisals. 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. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

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 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 73801-6944 or 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. A service agreement was signed effective January 1, 2020 and will expire on December 31, 2022. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for a number of Farm Credit institutions, provides administration for our payroll and benefits and may provide related human resource offerings.

ECONOMIC OVERVIEW

When 2020 began, loan demand was strong, commodity prices had stabilized to some extent and profitability had returned to the cattle industry. However, with the onset of the COVID-19 pandemic in early 2020, the financial markets, as well as the commodity markets experienced significant volatility unseen in recent years. The pandemic impacted food and shipping supply chains, commodity prices, off farm income, oil and gas activity, as well as the health of people across the state of Oklahoma and throughout the world. Given the lingering financial stress and the uncertain economic outlook currently, the unemployment rate remains elevated. The federal government worked diligently in 2020 to add liquidity into and stabilize the financial markets, while at the same time providing stimulus to the United States economy. During this time, global leaders looked for adequate ways to protect people from the COVID-19 virus and sought to make vaccinations and treatments readily available for people throughout the world as quickly as possible.

Currently, our lending territory is being impacted by drought conditions of varying degrees, with the western portion of the panhandle, as well as portions of the central and southern regions of our territory being most impacted by the lack of moisture. The United States Department of Agriculture (USDA) continues to rate the majority of soil moisture conditions across the state of Oklahoma as adequate to surplus. Presently, according to USDA, growing crop conditions across the state of Oklahoma are predominantly within the fair to good range, even though portions of the state are experiencing some level of drought.

Average real estate values in Oklahoma have shown signs of strength over the past few years when compared to real estate values nationwide, but given the current environment, it will be important to evaluate the sustainability of this market strength over time. USDA National Agricultural Statistics indicate that Oklahoma farm real estate values have increased by 1.07% in 2020, however, the continuation of Oklahoma real estate appreciation remains in question given the other factors previously mentioned. Although land values have been increasing on average statewide in Oklahoma, there are pockets of weakness that have been noted and future land value studies will indicate to what level the current stress in the agricultural economy will impact land values across the region.

These are stressful economic times not only in America but throughout the world, and agriculture has not been immune to the stress and uncertainty. Commodity prices were negatively impacted throughout 2020, but as of late, commodity prices have been on the rise, with opportunities for our customers to forward contract grain and cattle at strong levels of profitability. The financial strength that part time farmers have relied upon from off farm income diversification is currently under pressure. However, interest rates have declined to historically low levels and have greatly reduced the cost of borrowed capital. Although concern over the rural economic environment persists, significant equities remain across our customer base. During this period of volatility, solid financial managers will have the upper hand and a higher level of financial management is expected from our customer base in order to maintain profitability by working to control expenses while maintaining liquidity.

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

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

The U.S. government has initiated various programs in support of the COVID-19 economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. Among other provisions, the CARES Act made funds available for small businesses under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the Small Business Administration (SBA). On December 21, 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for PPP loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. Our Association obtained approval from the SBA to participate as a lender in the PPP and successfully processed $522 thousand in PPP loans for customers before the initial round of funding for the program was depleted. We continue to lend under the second round of government funding for PPP loans during the first quarter of 2021. Congress also provided additional funding for small business disaster loans and direct payments to farmers and ranchers as a result of the COVID-19 pandemic as well as making purchases of agriculture products. The impact of these and other U.S. government support programs and stimulus on the broader agricultural economy and our customers in particular is uncertain at this time. Our Association also implemented a Disaster Deferral Program in an effort to facilitate loan payment deferrals for customers being impacted by COVID-19.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This Farm Bill governs an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The Farm Bill continues to provide support for crop insurance and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations. The Farm Bill also clarifies the Insurance Corporation's authority, role and procedures for acting as a conservator or receiver of a troubled System institution. The Farm Bill provides a range of statutory options to the Insurance Corporation including, but not limited to, marshalling and liquidating assets, satisfying claims of creditors and using interim devices such as bridge banks. Many provisions of the Farm Bill require the USDA to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain.

LOAN PORTFOLIO

Total loans outstanding were $938.7 million at December 31, 2020, an increase of $57.7 million, or 6.5%, from loans at December 31, 2019 of $881.0 million, and an increase of $130.4 million, or 16.1%, from loans at December 31, 2018 of $808.3 million. The increase in loans was due to customer demand and marketing efforts resulting in growth for the real estate mortgage portfolio primarily, coupled with growth in agribusiness loans, rural infrastructure loans and participations purchased. The production and intermediate-term loan portfolio saw a sizeable increase from December 31, 2018 to present of $24.0 million or 8.8%, although from December 31, 2019 to present, this subset of the portfolio noted a decrease in loan volume of $7.4 million, or 2.4%.

The types of loans outstanding at December 31 are reflected in the following table.

(dollars in thousands)	**2020** Volume	**2020** Percent	2019 Volume	2019 Percent	2018 Volume	2018 Percent
Real estate mortgage loans	**$ 613,247**	**65.3%**	$ 558,498	63.4%	$ 522,681	64.7%
Production and intermediate-term loans	**296,303**	**31.6%**	303,683	34.5%	272,338	33.7%
Agribusiness loans	**25,538**	**2.7%**	17,628	2.0%	11,311	1.4%
Rural infrastructure loans	**2,382**	**0.3%**	357	–	1,058	0.1%
Rural residential real estate loans	**1,190**	**0.1%**	846	0.1%	885	0.1%
Total	**$ 938,660**	**100.0%**	$ 881,012	100.0%	$ 808,273	100.0%

Real estate mortgage loans outstanding increased 9.8% to $613.3 million, compared with $558.5 million at year-end 2019, primarily due to strong customer demand and marketing efforts, offset by typical and scheduled repayments. 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. The average loan to appraised value of the mortgage loan portfolio is less than 50% and 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 decreased 2.4% to $296.3 million, compared with 2019 loans of $303.7 million, primarily due to lower customer demand, due in part to the COVID-19 pandemic. Production loans are used to finance the ongoing operating needs of agricultural producers and 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. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following harvest or the sale of livestock and then loan balances increase in the spring and throughout the rest of the year as borrowers fund operating needs and/or purchase livestock.

At December 31, 2020, 6.8% of real estate mortgage loans, 9.7% of production and intermediate-term loans and 63.7% of agribusiness loans were the result of loan participations purchased. Additionally, 100% of our rural infrastructure loans were a result of loan participations purchased.

Portfolio Diversification

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

We purchase loan participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System 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)	**2020**	2019	2018
Participations purchased	**$ 89,403**	$ 80,175	$ 73,952
Participations sold	**$ 32,847**	$ 32,713	$ 30,110

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

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

	2020	2019	2018
Beaver	**2.53%**	2.70%	2.56%
Beckham	**2.08%**	2.37%	2.28%
Caddo	**7.40%**	7.80%	8.43%
Cimarron	**1.79%**	1.97%	2.04%
Cleveland	**0.98%**	0.95%	0.91%
Comanche	**1.91%**	2.15%	2.05%
Custer	**5.24%**	5.39%	4.88%
Dewey	**4.25%**	5.17%	4.85%
Ellis	**2.48%**	2.80%	2.84%
Grady	**4.49%**	4.50%	4.14%
Harper	**3.91%**	4.20%	4.70%
McClain	**2.41%**	1.73%	1.75%
Roger Mills	**2.04%**	2.47%	2.64%
Texas	**7.15%**	6.44%	6.72%
Washita	**4.77%**	4.32%	4.48%
Woods	**7.01%**	6.95%	7.08%
Woodward	**6.06%**	5.71%	5.55%
Other – Oklahoma	**12.64%**	12.19%	12.23%
Other – Oklahoma Participations	**1.62%**	1.69%	2.28%
Other – Kansas	**5.67%**	5.07%	5.55%
Other – Kansas Participations	**6.19%**	6.27%	5.55%
Other – Texas	**4.84%**	5.20%	4.28%
Other	**2.54%**	1.96%	2.21%
Total	**100.00%**	100.00%	100.00%

We are party to a Territorial Approval Agreement (Agreement) with five other associations in the states of Oklahoma, 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 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	**2020**	2019	2018
Beef	**63.80%**	65.66%	67.43%
Cash Grain/Corn/Sorghum	**13.36%**	12.12%	10.68%
Wheat	**4.42%**	5.61%	5.74%
Peanuts/Cotton/Peppers/Watermelon	**5.44%**	5.40%	5.04%
Landlords	**3.79%**	3.62%	3.75%
Hay	**1.26%**	1.36%	1.48%
Dairy	**2.49%**	2.01%	1.69%
Ag Services	**1.44%**	1.80%	1.31%
Other	**4.00%**	2.42%	2.88%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of beef and cash grains. The largest concentration is beef which is characteristic of our territory and is expected to remain our largest commodity concentration. Cash grain/corn/sorghum is our second largest commodity and obviously compliments beef producers as a source of feed grains and pasture for grazing cattle. 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 outstanding loan volume at December 31, 2020, approximately 58% consists of borrowers with income not solely from agricultural sources, a decrease from 61% for 2019, and 60% for 2018.

The loans outstanding at December 31, 2020 for loans $250 thousand or less accounted for 26.2% of loan volume and 78.0% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

	2020		2019		2018	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 245,716**	**3,109**	$ 254,049	3,118	$ 237,793	2,957
$251 - $500	**159,393**	**465**	151,634	436	134,725	387
$501 - $1,000	**170,775**	**247**	155,168	222	134,190	193
$1,001 - $5,000	**293,693**	**153**	293,946	144	264,941	133
$5,001 - $25,000	**69,083**	**10**	26,215	4	36,624	6
Total	**$ 938,660**	**3,984**	$ 881,012	3,924	$ 808,273	3,676

As of December 31, 2020, approximately 10% of our loans outstanding is attributable to 10 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $72.8 million at year-end 2020, $66.8 million at year-end 2019 and $61.4 million at year-end 2018 were outstanding. The utilization of credit guarantees with governmental agencies is a practical risk mitigation tool principally to reinforce our Young, Beginning and Small Farmer Program.

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, 2020.

(dollars in thousands)	**Due 1 year or less**	**Due after 1 year through 3 years**	**Due after 3 years through 5 years**	**Due after 5 years**	**Total**
Commitments to extend credit	$ 85,445	$ 89,306	$ 3,305	$ 5,926	$ 183,982
Standby letters of credit	95	123	123	–	341
Commercial letters of credit	119	–	–	–	119
Total commitments	$ 85,659	$ 89,429	$ 3,428	$ 5,926	$ 184,442

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. We consider potential losses related to unfunded commitments, and a reserve for unfunded commitments is included in the liabilities section of the Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income.

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)	**2020**	2019	2018
Nonaccrual loans:			
Real estate mortgage	**$ –**	$ –	$ 132
Production and intermediate term	**2**	53	847
Total nonaccrual loans	**2**	53	979
Accruing restructured loans:			
Real estate mortgage	**92**	91	89
Total accruing restructured loans	**92**	91	89
Accruing loans 90 days past due:			
Real estate mortgage	**626**	927	4
Total accruing loans 90 days past due	**626**	927	4
Total high risk assets	**$ 720**	$ 1,071	$ 1,072
Nonaccrual loans to total loans	**<0.01%**	0.01%	0.12%
High risk assets to total loans	**0.08%**	0.12%	0.13%
High risk assets to total shareholders' equity	**0.41%**	0.63%	0.67%

We had no other property owned for the years presented.

Total high risk assets decreased $351 thousand, or 32.8%, to $720 thousand at December 31, 2020 compared with year-end 2019. The reduction in high risk assets was largely due to improved credit quality in our portfolio.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $51 thousand compared with December 31, 2019 due to certain nonaccrual loans being transferred to accrual status. Nonaccrual volume decreased $977 thousand compared with December 31, 2018 due to loan payments as well as certain nonaccrual loans being transferred to accrual status. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	**2020**	2019	2018
Nonaccrual current as to principal and interest	**$ 2**	$ 53	$ 193
Restructured loans in nonaccrual status	**$ 2**	$ –	$ –

For the years presented, we had no cash basis nonaccrual loans.

Accruing restructured loans including related accrued interest increased $1 thousand during 2020. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

Accruing loans 90 days past due decreased $301 thousand compared with December 31, 2019 due to principal reductions in certain loans.

High risk asset volume is anticipated to increase in the future because of ongoing stress in the agriculture economy with emphasis on the cattle and cash grain industries. The increase is anticipated to remain within manageable levels per our projections.

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. Following 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 for the last three fiscal years.

	2020	2019	2018
Acceptable	**94.66%**	93.97%	93.96%
OAEM	**3.58%**	3.14%	2.45%
Substandard	**1.76%**	2.89%	3.59%
Total	**100.00%**	100.00%	100.00%

During 2020, overall credit quality improved. Loans classified as Acceptable and OAEM were 98.24% at December 31, 2020, 97.11% at December 31, 2019 and 96.41% at December 31, 2018. We had $2 thousand classified as Doubtful at December 31, 2020 but no loans classified as 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 increased, however, and remained at a low level of 0.33% at December 31, 2020, compared with 0.18% at December 31, 2019 and 0.09% at December 31, 2018.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio 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 for the last three fiscal years.

(dollars in thousands)	**2020**	2019	2018
Balance at beginning of year	**$ 1,862**	$ 1,909	$ 2,394
Charge-offs:			
Production and intermediate-term	**43**	35	199
Total charge-offs	**43**	35	199
Recoveries:			
Production and intermediate-term	**5**	33	13
Total recoveries	**5**	33	13
Net charge-offs	**38**	2	186
Provision for loan losses/(Loan loss reversal)	**3**	(45)	(299)
Balance at December 31	**$ 1,827**	$ 1,862	$ 1,909
Net charge-offs to average net loans	**<0.01%**	<0.01%	0.02%

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

(dollars in thousands)	**2020**	2019	2018
Real estate mortgage	**$ 423**	$ 357	$ 365
Production and intermediate-term	**1,359**	1,471	1,506
Agribusiness	**43**	30	31
Rural infrastructure	**1**	4	7
Rural residential real estate	**1**	–	–
Total	**$ 1,827**	$ 1,862	$ 1,909

The allowance for loan losses decreased $35 thousand from December 31, 2019, to $1.8 million at December 31, 2020. The decrease in allowance for loan losses was primarily due to net charge-offs of $38 thousand recorded during 2020 which was partially offset by the provision for loan losses totaling $3 thousand. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2019, our allowance for loan losses decreased $47 thousand from 2018 primarily due to the loan loss reversals totaling $45 thousand that were recorded due to improvements in credit quality. 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.

	2020	2019	2018
Allowance for loan losses as a percentage of:			
Loans	**0.19%**	0.21%	0.24%
Impaired loans	**253.75%**	173.86%	178.08%
Nonaccrual loans	**91,350.00%**	3,513.21%	194.99%

The decrease in nonaccrual loans impacted the above percentages significantly.

We maintain a separate reserve for unfunded commitments, which is included in Liabilities on our Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses.

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

(dollars in thousands)	**2020**	2019	2018
Balance at beginning of year	**$ 445**	$ 471	$ 407
Provision for/(Reversal of) reserve for unfunded commitments	**73**	(26)	64
Total	**$ 518**	$ 445	$ 471

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 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 profitable customers. Following are FCA regulatory definitions for YBS farmers and ranchers.

- 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 2017 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	**2020**	2019	2018
Young	9.79%	**20.82%**	21.11%	21.83%
Beginning	29.35%	**28.56%**	27.90%	27.88%
Small	92.02%	**60.44%**	59.70%	60.59%

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 this definition difference does exist, the information is the best comparative information available.

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

- Offer a 1% reduction in the variable interest rate to YBS farmers and ranchers who qualify;
- Continue to enhance both the experiences and learning opportunities available to our YBS Advisory Committees;
- Sponsor awards recognizing outstanding young farm families in our area;
- Award college scholarships to the next generation of potential farmers and ranchers;
- Fund interest-free 4-H and FFA loans to young producers who are working to gain the agricultural knowledge base needed to be successful;
- 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.

During 2020, our outreach efforts were challenging due to the COVID-19 pandemic, however our Association was successful in spreading the Farm Credit message while working to educate and support the next generation of farmers and ranchers. Given travel was significantly restricted during 2020, the Association had to delay our Washington D.C. initiative created for select YBS customers or potential customers. This initiative provides the opportunity for our area YBS producers to experience and participate in the political process. Participants in the Washington D.C. initiative meet with representatives of the Oklahoma delegation in the United States Congress and have face-to-face dialogue with leaders of agricultural trade organizations as well as the Farm Credit Administration, the Farm Credit Council and other decision makers specific to the agricultural industry and the Farm Credit System.

In addition to the Washington D.C. initiative, we use targeted lending and other outreach programs to further reinforce YBS qualitative and quantitative goals. The Association also uses specific lending programs and other outreach platforms such as our “Take One Off for the Future” program which reduces the interest rate on loans by 1% for qualified applicants. Our overall YBS lending campaign continues to leverage USDA loan guarantees and other critical government programs, along with additional progressive strategies to reach our annual quantifiable goals. We continue to promote our YBS program through our noticeable support of the young and diverse agricultural groups in Oklahoma including but not limited to countless 4H and FFA programs.

Quarterly reports are provided to our Board of Directors detailing the number and volume of our YBS customers. We have developed quantitative targets to monitor our progress.

- Loan number goals for YBS farmers and ranchers in our territory; and
- Loan volume goals for YBS farmers and ranchers in our territory.

	# of YBS Loans		**YBS Loan Volume**	
(dollars in thousands)	**Goal**	**Actual**	**Goal**	**Actual**
Young	881	831	$ 136,307	$ 155,678
Beginning	1,164	1,140	$ 177,926	$ 199,386
Small	2,492	2,412	$ 319,867	$ 329,604

During 2020, we met our loan volume goals for each category.

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, interest rate reduction programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training and business financial training for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

We utilize purchased participations to diversify risk in the loan portfolio. By utilizing defined underwriting standards with maximum risk thresholds established, we are able to limit risk from this subset of the portfolio, while expanding our ability to diversify commodity types and geographical locations served as we work to expand our customer base.

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 lending and lease limit base. The lending and lease limit base is defined as permanent capital with any applicable adjustments related to preferred stock and any investment held in connection with the sale of loan participation interest. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type and special lending programs. We have adopted an individual lending limit maximum of 10% of lending and lease limit base for our highest quality borrowers and can only exceed said threshold with Board approval.

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.

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

We also utilize a management reserve. The management reserve is the subjective portion of the allowance estimate. The subjective portion is a means of recognizing current risk of loss that is not reflected in the collective calculation. This portion of the allowance calculation estimates expected loss that is not captured in the general reserve due to differences between the risk reflected by the financial data in the database and the risk in the collective portfolio today.

RESULTS OF OPERATIONS

Earnings Summary

In 2020, we recorded net income of $11.1 million, compared with $12.1 million in 2019, and $12.4 million in 2018. The decrease in 2020 was primarily due to increased salaries and employee benefits, merger related costs and prepayment expense. The decrease in 2019 was primarily due to decreased patronage income from CoBank, decreased Farm Credit Insurance Fund distributions and increased salaries and employee benefits. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net income, prior year	**$ 12,074**	$ 12,429
Increase/(Decrease) from changes in:		
Interest income	**(2,353)**	4,975
Interest expense	**3,827**	(3,299)
Net interest income	**1,474**	1,676
Provision for credit losses	**(147)**	(164)
Noninterest income	**500**	(629)
Noninterest expense	**(2,747)**	(1,244)
Provision for income tax	**(5)**	6
Total decrease in net income	**(925)**	(355)
Net income, current year	**$ 11,149**	$ 12,074

Return on average assets decreased to 1.15% from 1.35% in 2019, and return on average shareholders' equity decreased to 6.36% from 7.22% in 2019, primarily as a result of lower net income coupled with a higher average asset base and a higher average shareholders' equity value.

Net Interest Income

Net interest income for 2020 was $23.6 million compared with $22.1 million for 2019 and $20.4 million for 2018. 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 loan growth throughout 2020, partially offset by reduced earnings on loanable funds. The following table provides an analysis of the individual components of the change in net interest income during 2020 and 2019.

(dollars in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net interest income, prior year	**$ 22,104**	$ 20,428
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(5,326)**	1,215
Interest rates paid	**5,220**	(1,319)
Volume of interest-bearing assets and liabilities	**1,737**	1,918
Interest income on nonaccrual loans	**(157)**	(138)
Increase in net interest income	**1,474**	1,676
Net interest income, current year	**$ 23,578**	$ 22,104

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		
	2020	2019	2018
Net interest margin	**2.60%**	2.64%	2.69%
Interest rate on:			
Average loan volume	**4.38%**	5.04%	4.90%
Average debt	**2.06%**	2.79%	2.58%
Interest rate spread	**2.32%**	2.25%	2.32%

The increase in interest rate spread resulted from a 66 basis point decrease in interest rates on average loan volume and a 73 basis point decrease in interest rates on average debt. The decrease in net interest margin was due to lower earnings on our own capital partially offset by to the change in spread. Interest rates have trended steadily downward during 2020.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitments is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net provision for credit losses of $76 thousand in 2020, compared with net credit loss reversals of $71 thousand in 2019 and $235 thousand in 2018. The provision for loan losses of $3 thousand recorded during 2020 was primarily due to loan growth, partially offset by improved credit quality. The provision for reserve for unfunded commitments of $73 thousand was recorded during 2020 due to growth in unfunded commitments. Both the loan loss reversals of $45 thousand and the reversals of provision for reserve for unfunded commitments of $26 thousand recorded during 2019 were primarily due to improved credit quality. The loan loss reversals of $299 thousand recorded in 2018 were primarily due to improvements in credit quality, offset by the provision for reserve for unfunded commitments of $64 thousand recorded primarily due to growth in unfunded commitments.

Noninterest Income

During 2020, we recorded noninterest income of $4.2 million, compared with $3.7 million in 2019 and $4.3 million in 2018. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash. The total patronage from CoBank consists of patronage based on our borrowing balance, which is referred to as our direct note patronage. Patronage earned from CoBank was $3.4 million in 2020 which includes additional patronage distribution from CoBank of $584 thousand due to CoBank's strong capital levels and financial results. Patronage earned from CoBank was $2.8 million in 2019 and $3.3 million in 2018 which included a special cash patronage distribution of $373 thousand relating to tax reform changes.

During August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of market place challenges. The changes were intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The plan included a reduction to our patronage income in 2018 of 5 basis points on participation loans with CoBank. Additionally, the changes include a reduction in patronage related to our direct note with CoBank for all other loans of 5 basis points in 2019 and a further reduction of 4 basis points in 2020. During 2020, we received 36 basis points on our direct note with CoBank, 40 basis points in 2019, and 45 basis points in 2018. These basis points are before any special patronage distributed by CoBank. In addition, CoBank has indicated our patronage income related to our direct note with CoBank will be 39 basis points in 2021, 36 basis points in 2022 and 33 basis points in 2023.

In 2020, we recorded a cash patronage of $10 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services, which will be paid in the following year. This compares with $8 thousand recorded in 2019 and $6 thousand in 2018. Patronage income from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of $188 thousand during 2020, $186 thousand during 2019, and $503 thousand during 2018 from Farm Credit System Insurance Corporation (FCSIC). The FCSIC refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts.

We received mineral income of $347 thousand during 2020. Of this amount, quarterly payments totaling $320 thousand was distributed to us quarterly by CoBank. Mineral income decreased from $488 thousand in 2019 and $472 thousand in 2018. The decrease is attributed to the rapid oil demand destruction caused by the pandemic, plummeting crude oil prices, low natural gas prices, and decreased drilling activity and production.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2020 were $95 thousand, an increase of $78 thousand from 2019, primarily due to SBA fees, which were a result of the PPP loan program and secondary market fees, which were a result of originating home loans.

Noninterest Expense

Noninterest expense for 2020 increased $2.7 million, or 19.9%, to $16.5 million compared with 2019 and $4.0 million, or 31.8% compared with 2018. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2020**	2019	2018	**2020/2019**	2019/2018
Salaries & employee benefits	**$ 8,774**	$ 7,016	$ 6,257	**25.06%**	12.13%
Occupancy & equipment	**715**	756	671	**(5.42%)**	12.67%
Purchased services from AgVantis	**2,280**	2,068	1,840	**10.25%**	12.39%
Supervisory & examination costs	**295**	285	274	**3.51%**	4.01%
Merger related costs	**878**	–	–	**100.00%**	–
Other	**2,718**	3,091	2,986	**(12.07%)**	3.52%
Total operating expense	**15,660**	13,216	12,028	**18.49%**	9.88%
Farm Credit Insurance Fund premium	**650**	565	509	**15.04%**	11.00%
Prepayment expense	**218**	–	–	**100.00%**	–
Total noninterest expense	**$ 16,528**	$ 13,781	$ 12,537	**19.93%**	9.92%

For the year ended December 31, 2020, total operating expense increased $2.4 million, or 18.5%, compared with the year ended December 31, 2019, due to an increase in salaries and employee benefits primarily related to increased pension expense due to changes in certain plan assumptions. The increase in total operating expense was also impacted by merger related costs incurred in 2020 due to the merger with AgPreference, ACA and increased purchased services costs from our service provider, AgVantis. Partially offsetting the increase was a decrease in other noninterest expense related to reduced employee training expenses and reduced travel expenses as a result of COVID-19 restrictions. In addition, we noted a decrease in other purchased services year over year as well as a reduction in public and member relations expenses. Total operating expense increased $3.6 million, or 30.2% compared with year ended December 31, 2018, due to an increase in salaries and employee benefits related to annual merit increases, bonus and incentive payments, multiple new hires, and further impacted by increased pension expense.

Insurance Fund premium increased $85 thousand to $650 thousand at December 31, 2020 due to an increase in average loan volume and an increase in the FCSIC premium rate. Additionally, we recorded excess prepayment expense of $218 thousand during 2020 due to fees charged by CoBank related to excess loan prepayments, primarily from loan conversions that have resulted from the current low interest rate environment in the wake of the COVID-19 pandemic.

Provision for income taxes

We recorded $7 thousand in provision for income taxes during 2020, compared with $2 thousand in 2019 and $8 thousand in 2018. The increase in 2020 was primarily due to increased taxable income related to minerals owned. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower 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) with CoBank, which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $778.1 million in 2020, $711.5 million in 2019 and $639.6 million in 2018.

We plan to continue to fund lending operations through the utilization of our funding arrangement 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 loanable funds with CoBank at a fixed rate for a specified term 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, and adjustable prime-based rate loans to borrowers. Our Asset/Liability Committee (ALCO) determines the interest rates 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.

Uncertainty Surrounding the Future of LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021.

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time we are unable to predict whether or when LIBOR will cease to be available or if Secured Overnight Financing Rate (SOFR) or any other alternative reference rate will become the benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers. Management has documented a LIBOR transition plan to address the phase out of LIBOR rates in the future including any updates to processes and loan servicing technology.

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, 2020 totaled $177.4 million, compared with $169.7 million at December 31, 2019 and $161.1 million at December 31, 2018. The increase of $7.7 million in shareholders' equity reflects net income and net stock issuances, partially offset by patronage refunds and an increase in accumulated other comprehensive loss. Our capital position is reflected in the following ratio comparisons.

	2020	2019	2018
Debt to shareholders' equity	**4.65:1**	4.55:1	4.35:1
Shareholders' equity as a percent of net loans	**18.93%**	19.30%	19.97%
Shareholders' equity as a percent of total assets	**17.71%**	18.03%	18.68%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2019 primarily due to strong loan growth, patronage distributions and lower earnings year over year.

Retained Earnings

Our retained earnings increased $7.9 million to $142.0 million at December 31, 2020 from $134.1 million at December 31, 2019 and increased $16.5 million from $125.5 million at December 31, 2018. The increase in 2020 was a result of net income of $11.1 million, partially offset by $3.3 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, the Bylaws address 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 $3.5 million in 2020, $2.8 million in 2019 and $2.5 million in 2018. During 2020, we declared patronage distributions of $3.3 million which was paid in February 2021.

Stock

Our total stock increased $32 thousand to $2.1 million at December 31, 2020, from $2.0 million at December 31, 2019 and December 31, 2018. The increase during 2020 was due to $195 thousand of stock issuances, partially offset by $163 thousand of stock retirements. 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).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $317 thousand at December 31, 2020, an increase of $236 thousand compared with year-end 2019 and an increase of $271 thousand compared with year-end 2018. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

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.

As shown in the following table, at December 31, 2020, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends.

	2020	2019	2018	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**16.58%**	16.96%	17.38%	16.83%	7.00%
Tier 1 Capital ratio	**16.58%**	16.96%	17.38%	16.83%	8.50%
Total Capital ratio	**16.85%**	17.23%	17.73%	17.31%	10.50%
Tier 1 Leverage ratio	**15.63%**	16.02%	16.40%	15.95%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage ratio	**17.16%**	17.34%	17.83%	17.42%	1.50%
Permanent capital ratio	**16.62%**	16.99%	17.43%	16.90%	7.00%

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, 2020, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

The table below presents the capital ratios prior to the new capital regulations implemented in 2017. As displayed, we exceeded the minimum regulatory capital requirements in effect at December 31, 2016.

	2016	Regulatory Minimum
Permanent capital ratio	16.30%	7.00%
Total surplus ratio	16.03%	7.00%
Core surplus ratio	16.03%	3.50%

Refer to Note 7, Shareholders' Equity, in this report for additional information on our capital and related requirements and restrictions.

REGULATORY MATTERS

As of December 31, 2020, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

GOVERNANCE

Board of Directors

As of January 1, 2021, we are governed by a twenty-one member board that provides direction and oversees our management. Of these directors, eighteen are elected by the shareholders and three are 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 six members of the Board of Directors. During 2020, five meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements;
- 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; and

- oversight 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.

Risk/Technology Committee

The Risk Committee is responsible for the oversight of credit risk, including lending and underwriting standards and assesses the conditions that may materially impact the loan portfolio. The Risk Committee consists of seven members of the Board of Directors.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of five members of the 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 Banking Officer, Chief Risk Officer, Chief Financial Officer, Chief Credit Officer, Chief Lending Officer and other Association financial professionals as determined by the CEO, who are instrumental in accomplishing accurate and complete financial reporting;
- 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.

Code of Ethics

Our directors and employees are responsible for maintaining the highest of standards in conducting our business. In that regard, we established a Code of Ethics for the Board of Directors and a Code of Ethics for the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, and other senior financial professionals who are involved, directly or indirectly, with the preparation of our financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement our Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, all employees certify compliance with our Code of Ethics on an annual basis.

Whistleblower Program

We maintain a program for employee complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. This program allows employees to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, fraud or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action. The whistleblower program is not limited to employees. We list the whistleblower website address and hotline number on our website for use by other interested parties, if needed.

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, including the continued coronavirus pandemic, 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/Reserve for Unfunded Commitments

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. Additionally, we provide line of credit financing to our customers. We have established a reserve for unfunded commitments to cover probable losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitments is increased through provision for the reserve for unfunded commitments and is decreased through reversals of the reserve for unfunded commitments. Provision for loan losses and provision for reserve for unfunded commitments are referred to as a provision for credit losses on the Consolidated Statement of Comprehensive Income. We determine the allowance for loan losses and the reserve for unfunded commitments based on a regular evaluation of the loan and commitment portfolios, 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.

ALVA
219 Oklahoma Blvd.
Alva, OK 73717
580 327-0870
866 903-0870
Fax 580 327-6952

ANADARKO
PO Box 910
513 S. Mission St.
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405 247-2421
800 585-2421
Fax 405 247-3582

CLINTON
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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
580 821-9200
888 821-9202
Fax 580 821-9208

GUYMON
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580 338-3828
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Fax 580 338-5111

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PO Box 790
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WOODWARD
3302 Williams Ave.
Woodward, OK 73801
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800 299-3465
Fax 580 256-5982

REPORT OF MANAGEMENT

The consolidated financial statements of Farm Credit of Western Oklahoma (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated 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 2020 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, management engaged Deloitte & Touche, LLP to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. 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 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.

Steve Semmel
Chairman of the Board

John Grunewald
President and Chief Executive Officer

Jamey B. Mitchell, CPA
Chief Financial Officer

March 9, 2021

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes six members from the Board of Directors of Farm Credit of Western Oklahoma, ACA (Association). In 2020, 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 2020.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2020 were $61,800 for audit services, $9,400 for tax services and $2,000 for non-audit related services for advice concerning the CECL accounting pronouncement.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2020 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. 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, 2020 and for filing with the Farm Credit Administration.

Lonnie Olson

Lonnie Olson, Chairman of the Audit Committee
Audit Committee Members
Stephanie Craighead
Tyler Kamp
Jimmie Purvine
Alan Schenk
Robert Williams

March 9, 2021

Report of Independent Auditors

To the Board of Directors 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 statements of condition as of December 31, 2020, 2019 and 2018, 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.

Auditors' 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 as of December 31, 2020, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 16 to the consolidated financial statements, on January 1, 2021, the Association merged operations with AgPreference, ACA. Voting stockholders from both Associations approved the proposed plan of merger, and final approval from Farm Credit Administration was received on December 28, 2020. The merged association will conduct business as Farm Credit of Western Oklahoma, ACA. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 9, 2021

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2020	2019	2018
ASSETS			
Loans	**938,660**	$ 881,012	$ 808,273
Less allowance for loan losses	**1,827**	1,862	1,909
Net loans	**936,833**	879,150	806,364
Cash	**4,335**	3,898	4,751
Accrued interest receivable	**14,760**	15,913	13,334
Investment in CoBank, ACB	**30,828**	28,474	25,595
Premises and equipment, net	**4,991**	5,068	5,144
Prepaid benefit expense	**4,342**	3,552	2,449
Other assets	**5,510**	4,785	4,574
Total assets	**$ 1,001,599**	$ 940,840	$ 862,211
LIABILITIES			
Note payable to CoBank, ACB	**$ 804,672**	$ 754,409	$ 685,066
Advance conditional payments	**9,723**	7,320	7,374
Accrued interest payable	**1,138**	1,639	1,645
Patronage distributions payable	**3,250**	3,500	2,750
Accrued benefits liability	**528**	282	247
Reserve for unfunded commitments	**518**	445	471
Other liabilities	**4,416**	3,586	3,598
Total liabilities	**$ 824,245**	$ 771,181	$ 701,151
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	**2,058**	2,026	1,966
Additional paid-in capital	**33,619**	33,619	33,619
Unallocated retained earnings	**141,994**	134,095	125,521
Accumulated other comprehensive income/(loss)	**(317)**	(81)	(46)
Total shareholders' equity	**177,354**	169,659	161,060
Total liabilities and shareholders' equity	**$ 1,001,599**	$ 940,840	$ 862,211

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2020	2019	2018
INTEREST INCOME			
Loans	**$ 39,791**	$ 42,144	$ 37,169
Total interest income	**39,791**	42,144	37,169
INTEREST EXPENSE			
Note payable to CoBank, ACB	**16,115**	19,921	16,632
Other	**98**	119	109
Total interest expense	**16,213**	20,040	16,741
Net interest income	**23,578**	22,104	20,428
Provision for credit losses/(Credit loss reversal)	**76**	(71)	(235)
Net interest income after provision for credit losses/credit loss reversal	**23,502**	22,175	20,663
NONINTEREST INCOME			
Financially related services income	**8**	15	12
Loan fees	**95**	17	12
Patronage distribution from Farm Credit institutions	**3,395**	2,856	3,259
Farm Credit Insurance Fund distribution	**188**	186	503
Mineral income	**347**	488	472
Other noninterest income	**149**	120	53
Total noninterest income	**4,182**	3,682	4,311
NONINTEREST EXPENSE			
Salaries and employee benefits	**8,774**	7,016	6,257
Occupancy and equipment	**715**	756	671
Purchased services from AgVantis, Inc.	**2,280**	2,068	1,840
Farm Credit Insurance Fund premium	**650**	565	509
Merger related costs	**878**	-	-
Supervisory and examination costs	**295**	285	274
Prepayment expense	**218**	-	-
Other noninterest expense	**2,718**	3,091	2,986
Total noninterest expense	**16,528**	13,781	12,537
Income before income taxes	**11,156**	12,076	12,437
Provision for income taxes	**7**	2	8
Net income	**11,149**	12,074	12,429
COMPREHENSIVE INCOME			
Amortization of retirement costs	**15**	8	15
Actuarial (loss)/gain in retirement obligation	**(251)**	(43)	14
Total comprehensive income	**$ 10,913**	$ 12,039	$ 12,458

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2017	$ 1,971	$ 33,619	$ 115,842	$ (75)	$ 151,357
Comprehensive income			12,429	29	12,458
Stock issued	170				170
Stock retired	(175)				(175)
Patronage Distributions: Cash			(2,750)		(2,750)
Balance at December 31, 2018	1,966	33,619	125,521	(46)	161,060
Comprehensive income			12,074	(35)	12,039
Stock issued	215				215
Stock retired	(155)				(155)
Patronage distributions: Cash			(3,500)		(3,500)
Balance at December 31, 2019	2,026	33,619	134,095	(81)	169,659
Comprehensive income			11,149	(236)	10,913
Stock issued	195				195
Stock retired	(163)				(163)
Patronage distributions: Cash			(3,250)		(3,250)
Balance at December 31, 2020	**$ 2,058**	**$ 33,619**	**$ 141,994**	**$ (317)**	**$ 177,354**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 11,149**	$ 12,074	$ 12,429
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**483**	439	400
Provision for credit losses/(Credit loss reversal)	**76**	(71)	(235)
Gains on sales of premises and equipment	**(18)**	(37)	(15)
Net accretion of yield related to loans and notes payable acquired in merger	**(16)**	15	(8)
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	**1,153**	(2,579)	(1,297)
Increase in prepaid benefit expense	**(790)**	(1,103)	(707)
Increase in other assets	**(725)**	(211)	(144)
(Decrease)/Increase in accrued interest payable	**(501)**	(6)	520
Increase in accrued benefits liability	**10**	-	7
Increase/(Decrease) in other liabilities	**830**	(12)	(2)
Total adjustments	**502**	(3,565)	(1,481)
Net cash provided by operating activities	**11,651**	8,509	10,948
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(57,573)**	(72,712)	(52,858)
Increase in investment in CoBank, ACB	**(2,354)**	(2,879)	(128)
Expenditures for premises and equipment	**(406)**	(398)	(392)
Proceeds from sales of premises and equipment	**18**	72	15
Net cash used in investing activities	**(60,315)**	(75,917)	(53,363)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**50,166**	69,299	43,754
Increase/(Decrease) in advance conditional payments	**2,403**	(54)	1,230
Capital stock retired	**(163)**	(155)	(175)
Capital stock issued	**195**	215	170
Cash patronage distributions paid	**(3,500)**	(2,750)	(2,500)
Net cash provided by financing activities	**49,101**	66,555	42,479
Net increase/(decrease) in cash	**437**	(853)	64
Cash at beginning of year	**3,898**	4,751	4,687
Cash at end of year	**$ 4,335**	$ 3,898	$ 4,751
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 16,714**	$ 20,046	$ 16,221
Income taxes	**$ -**	$ 9	$ 5
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Net charge-offs	**$ 38**	$ 2	$ 186
Patronage distributions payable	**$ 3,250**	$ 3,500	$ 2,750
Change in accumulated other comprehensive income/(loss)	**$ (236)**	$ (35)	$ 29

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, Caddo, Cimarron, Cleveland, Comanche, Custer, Dewey, Ellis, Grady, Harper, McClain, 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, 2020, the System was comprised of three Farm Credit Banks and one Agricultural Credit Bank (System Banks), and 68 associations.

CoBank, ACB (funding bank or the "Bank"), 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. As of December 31, 2020, the CoBank District consists of CoBank, 21 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA) 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). 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 to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate Insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations 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% 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.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered 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 serves as an intermediary in offering credit and term life insurance, advance conditional payment accounts and provides additional services to borrowers such as fee appraisals and vehicle and equipment leasing through Farm Credit Leasing.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 3302 Williams Avenue, Woodward, Oklahoma 73801-6944 or by calling (580) 256-

3465 or (800) 299-3465. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

C. On January 1, 2021, the Association merged with the AgPreference, ACA, an association headquartered in Altus, Oklahoma. Further information on this merger is found in Note 16.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Farm Credit of Western Oklahoma, PCA and Farm Credit of Western Oklahoma, FLCA and reflect the investments in and allocated earnings of the service organizations in which Association has partial ownership interests. Inter-company transactions have been eliminated in consolidation. The accounting and reporting policies of the Association conform to GAAP and prevailing practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

Recently Issued Accounting Pronouncements

Adopted Guidance

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. In response to the CARES Act, the FCA issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. The Association adopted this relief for qualifying loan modifications. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

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

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

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

Guidance Pending Adoption

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance was to become effective for interim and annual periods beginning after December 15, 2020, with early application permitted. In November 2019, the FASB issued an update that amends the mandatory effective date for this guidance for certain institutions. The change resulted from a change in the effective date philosophy that extends and simplifies the adoption by staggering the dates between large public entities and other entities. As a result of the change, the new credit loss standard, for those institutions qualifying for the delay, becomes effective for interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on the Association's financial condition and its results of operations.

Summary of the Association's 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.

   Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality, and therefore acquired loans have no related allowance for loan losses at acquisition date. Those loans with evidence of credit quality deterioration at purchase are required to be recorded in accordance with the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Impaired loans are loans for which it is probable that not all principal and interest will 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 or otherwise discharged in full.

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. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan. Certain loan modifications that resulted from circumstances related to COVID-19 are eligible under the FCA issued guidance and the Association is not required to report them as a TDR.

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 collectability 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.

On September 10, 2020, the FCA issued a final rule on criteria to reinstate nonaccrual loans that clarifies the factors that System institutions should consider when categorizing high risk loans and placing them in nonaccrual status. The rule also revised the criteria by which loans are reinstated to accrual status, and it revised the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The application of this rule did not impact the classification of any of our recorded nonaccrual balances at December 31, 2020.

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 troubled debt restructuring. 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. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under Accounting Standards Codification (ASC) 860 "Transfers and Servicing."

The Association uses a two-dimensional loan rating model based on 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. 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 and loans acquired through mergers with deteriorated credit quality. 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. At times, cash deposits may be in excess of federally insured limits.

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 comprised of patronage based stock and purchased stock.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the buildings ranges from 10 to 45 years and from 3 to 5 years for furniture, equipment and automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed 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 other than CoBank. 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 liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while unrestricted 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.

The 401(k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined 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. 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.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

H. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned and are included in Other Assets on the Consolidated Statement of Condition.

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 elected 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 CoBank, 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.

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. See Note 7 for further information.

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 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		
(dollars in thousands)	**2020**	2019	2018
Real estate mortgage	**$ 613,247**	$ 558,498	$ 522,681
Production and intermediate-term	**296,303**	303,683	272,338
Agribusiness	**25,538**	17,628	11,311
Rural infrastructure	**2,382**	357	1,058
Rural residential real estate	**1,190**	846	885
Total loans	**$ 938,660**	881,012	$ 808,273

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, 2020.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(dollars in thousands)	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 39,101	$ 28,302	$ 2,850	$ –	$ 41,951	$ 28,302
Production and intermediate-term	28,793	4,545	–	–	28,793	4,545
Agribusiness	16,277	–	–	–	16,277	–
Rural infrastructure	2,382	–	–	–	2,382	–
Total	$ 86,553	$ 32,847	$ 2,850	$ –	$ 89,403	$ 32,847

A substantial portion of the Association's loans are collateralized. 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 $72.8 million at year-end 2020, $66.8 million at year-end 2019 and $61.4 million at year-end 2018 were outstanding. Farm Service Agency (FSA) loan guarantees are utilized when appropriate to manage credit risk. Typically, the Association has a 90% guarantee from the FSA which would insure that our loss on a guaranteed loan would not exceed 10% of the original loan balance in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured. During 2020, the Association's credit enhancements with federal government agencies also included loans guaranteed at 100% by the Small Business Administration (SBA).

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

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

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

	2020	2019	2018
Real estate mortgage			
Acceptable	**96.12%**	95.71%	95.19%
OAEM	**2.20%**	1.78%	1.83%
Substandard	**1.68%**	2.51%	2.98%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**91.71%**	90.41%	91.30%
OAEM	**6.20%**	5.84%	3.76%
Substandard	**2.09%**	3.75%	4.94%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**93.20%**	99.76%	100.00%
OAEM	**6.79%**	–	–
Substandard	**0.01%**	0.24%	–
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**94.66%**	93.97%	93.96%
OAEM	**3.58%**	3.14%	2.45%
Substandard	**1.76%**	2.89%	3.59%
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		
(dollars in thousands)	**2020**	2019	2018
Nonaccrual loans:			
Current as to principal and interest	**$ 2**	$ 53	$ 193
Past due	**–**	–	786
Total nonaccrual loans	**2**	53	979
Impaired accrual loans:			
Restructured accrual loans	**92**	91	89
Accrual loans 90 days or more past due	**626**	927	4
Total impaired accrual loans	**718**	1,018	93
Total impaired loans	**$ 720**	$ 1,071	$ 1,072

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

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

	December 31		
(dollars in thousands)	**2020**	2019	2018
Nonaccrual loans:			
Real estate mortgage	**$ –**	$ –	$ 132
Production and intermediate term	**2**	53	847
Total nonaccrual loans	**2**	53	979
Accruing restructured loans:			
Real estate mortgage	**92**	91	89
Total accruing restructured loans	**92**	91	89
Accruing loans 90 days past due			
Real estate mortgage	**626**	927	4
Total accruing loans 90 days past due	**626**	927	4
Total impaired loans	**$ 720**	$ 1,071	$ 1,072

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

Additional impaired loan information is as follows:

(dollars in thousands)	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$ –	$ –	$ –	$ 38	$ –
Total	$ –	$ –	$ –	$ 38	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 718	$ 682		$ 1,028	$ 65
Production and intermediate-term	2	1,364		5	4
Total	$ 720	$ 2,046		$ 1,033	$ 69
Total impaired loans:					
Real estate mortgage	$ 718	$ 682	$ –	$ 1,028	$ 65
Production and intermediate-term	2	1,364	–	43	4
Total	$ 720	$ 2,046	$ –	$ 1,071	$ 69

(dollars in thousands)	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$ 49	$ 58	$ 5	$ 638	$ –
Total	$ 49	$ 58	$ 5	$ 638	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,018	$ 929		$ 543	$ 48
Production and intermediate-term	4	1,367		182	133
Total	$ 1,022	$ 2,296		$ 725	$ 181
Total impaired loans:					
Real estate mortgage	$ 1,018	$ 929	$ –	$ 543	$ 48
Production and intermediate-term	53	1,425	5	820	133
Total	$ 1,071	$ 2,354	$ 5	$ 1,363	$ 181

(dollars in thousands)	Recorded Investment at 12/31/18	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	$ 786	$ 812	$ 106	$ 1,487	$ –
Total	$ 786	$ 812	$ 106	$ 1,487	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 225	$ 257		$ 2,704	$ 266
Production and intermediate-term	61	1,415		477	49
Total	$ 286	$ 1,672		$ 3,181	$ 315
Total impaired loans:					
Real estate mortgage	$ 225	$ 257	$ –	$ 2,704	$ 266
Production and intermediate-term	847	2,227	106	1,964	49
Total	$ 1,072	$ 2,484	$ 106	$ 4,668	$ 315

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

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

	Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Interest income recognized on:			
Nonaccrual loans	**$ 4**	$ 161	$ 299
Restructured accrual loans	**5**	5	5
90 days or more past due	**60**	15	11
Interest income recognized on impaired loans	**$ 69**	$ 181	$ 315

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		
(dollars in thousands)	**2020**	2019	2018
Interest income which would have been recognized under the original loan terms	**$ 71**	$ 120	$ 683
Less: interest income recognized	**9**	166	304
Interest income not recognized/(recognized)	**$ 62**	$ (46)	$ 379

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

	December 31, 2020					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 2,508	$ 626	$ 3,134	$ 619,886	$ 623,020	$ 626
Production and intermediate-term	31	–	31	301,161	301,192	–
Agribusiness	–	–	–	25,624	25,624	–
Rural infrastructure	–	–	–	2,382	2,382	–
Rural residential real estate	–	–	–	1,202	1,202	–
Total	$ 2,539	$ 626	$ 3,165	$ 950,255	$ 953,420	$ 626

	December 31, 2019					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 730	$ 927	$ 1,657	$ 566,653	$ 568,310	$ 927
Production and intermediate-term	–	–	–	309,694	309,694	–
Agribusiness	–	–	–	17,708	17,708	–
Rural infrastructure	–	–	–	357	357	–
Rural residential real estate	–	–	–	856	856	–
Total	$ 730	$ 927	$ 1,657	$ 895,268	$ 896,925	$ 927

	December 31, 2018					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 743	$ 4	$ 747	$ 530,506	$ 531,253	$ 4
Production and intermediate-term	6	786	792	276,201	276,993	–
Agribusiness	–	–	–	11,408	11,408	–
Rural infrastructure	–	–	–	1,058	1,058	–
Rural residential real estate	–	–	–	895	895	–
Total	$ 749	$ 790	$ 1,539	$ 820,068	$ 821,607	$ 4

Note: The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Association had no troubled debt restructurings that occurred in the periods presented. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2020, 2019 and 2018.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at December 31.

	Loans modified as TDRs			TDRs in Nonaccrual Status*		
(dollars in thousands)	**2020**	2019	2018	**2020**	2019	2018
Real estate mortgage	**$ 94**	$ 91	$ 89	**$ 2**	$ –	$ –
Total	**$ 94**	$ 91	$ 89	**$ 2**	$ –	$ –

*Represents the portion of loans modified as TDRs that are in nonaccrual status.

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

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2020
Real estate mortgage	$ 357	$ –	$ –	$ 66	$ 423
Production and intermediate-term	1,471	43	5	(74)	1,359
Agribusiness	30	–	–	13	43
Rural infrastructure	4	–	–	(3)	1
Residential real estate	–	–	–	1	1
Total	$ 1,862	$ 43	$ 5	$ 3	$ 1,827

(dollars in thousands)	Balance at December 31, 2018	Charge-offs	Recoveries	Loan Loss Reversals	Balance at December 31, 2019
Real estate mortgage	$ 365	$ –	$ –	$ (8)	$ 357
Production and intermediate-term	1,506	35	33	(33)	1,471
Agribusiness	31	–	–	(1)	30
Rural infrastructure	7	–	–	(3)	4
Total	$ 1,909	$ 35	$ 33	$ (45)	$ 1,862

(dollars in thousands)	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2018
Real estate mortgage	$ 367	$ –	$ –	$ (2)	$ 365
Production and intermediate-term	1,993	199	13	(301)	1,506
Agribusiness	27	–	–	4	31
Rural infrastructure	7	–	–	–	7
Total	$ 2,394	$ 199	$ 13	$ (299)	$ 1,909

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

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

	Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Balance at beginning of period	**$ 445**	$ 471	$ 407
Provision for/(Reversal of) reserve for unfunded commitments	**73**	(26)	64
Total	**$ 518**	$ 445	$ 471

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at December 31, 2020		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2020	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 423	$ 718	$ 622,302
Production and intermediate-term	–	1,359	2	301,190
Agribusiness	–	43	–	25,624
Rural infrastructure	–	1	–	2,382
Rural residential real estate	–	1	–	1,202
Total	$ –	$ 1,827	$ 720	$ 952,700

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

(dollars in thousands)	Allowance for Loan Losses Ending Balance at December 31, 2018		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 365	$ 224	$ 531,029
Production and intermediate-term	106	1,400	847	276,146
Agribusiness	–	31	–	11,408
Rural infrastructure	–	7	–	1,058
Rural residential real estate	–	–	–	895
Total	$ 106	$ 1,803	$ 1,071	$ 820,536

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2020, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 0.79 percent of the outstanding common stock of CoBank at December 31, 2020, compared with 0.79 percent at December 31, 2019 and 0.75 percent at December 31, 2018.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Land	**$ 1,157**	$ 1,156	$ 1,156
Buildings and leasehold improvements	**5,456**	5,442	5,430
Furniture, equipment and automobiles	**2,128**	1,784	1,577
	8,741	8,382	8,163
Less: accumulated depreciation	**3,750**	3,314	3,019
Total	**$ 4,991**	$ 5,068	$ 5,144

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). According to the agreement, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the line of credit. The GFA is subject to periodic renewals in the normal course of business. The GFA will mature on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2020. 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.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Line of credit	**$ 900,000**	$ 855,000	$ 780,000
Outstanding principal and accrued interest balance	**$ 805,793**	$ 756,017	$ 686,678
Average outstanding principal balance under the line of credit	**$ 778,108**	$ 711,491	$ 639,633
Weighted average interest rate	**2.07%**	2.80%	2.60%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with the Bank, and our advanced conditional payments, the Association has no other uninsured or insured debt. See Note 2 for additional information. 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, 2020, the Association's notes payable was within the specified limitations.

The Association has the opportunity to commit loanable 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 loanable 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:

(dollars in thousands)	**2020**	2019	2018
Average committed funds	**$ 134,765**	$ 129,133	$ 125,033
Average rates	**0.69%**	2.23%	1.87%

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.

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. 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. Our bylaws generally permit stock to be retired at the discretion of the Board of Directors and in compliance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2020, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of 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 Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, regulatory capital surplus requirements for Banks and Associations were adopted. These requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31.

Ratio	**Primary Components of Numerator**	**Denominator**	**2020**	**2019**	**2018**	**Minimum with Buffer***	**Minimum Requirement**
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	16.58%	16.96%	17.38%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, noncumulative perpetual preferred stock	Risk-adjusted assets	16.58%	16.96%	17.38%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses[2], common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	16.85%	17.23%	17.73%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	15.63%	16.02%	16.40%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	17.16%	17.34%	17.83%	–	1.5%

(Continued)

Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	16.62%	16.99%	17.43%	–	7.0%

* The capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.
** Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.
[1] Equities outstanding 7 or more years
[2] Capped at 1.25% of risk-adjusted assets
[3] Outstanding 5 or more years, but less than 7 years
[4] Outstanding 5 or more years

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

An FCA regulation empowers it 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, 2020. Unless otherwise indicated, all classes of stock have a par value of $5.00. All classes of stock are transferable to other customers who are eligible to hold such class of stock. Transfers of stock are only allowed as long as the Association meets the regulatory minimum capital requirements. Also, Class B stock may not be transferred while such stock is necessary to qualify their holder as eligible to borrow from us. Refer to the Management’s Discussion and Analysis Capital Resources discussion for further information.

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, 408,223 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 Stock 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, 3,374 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 Stock 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.

The changes in the number of shares of protected and capital stock outstanding during 2020 are summarized in the following table.

Shares in whole numbers	Protected Capital	Capital
Shares outstanding at December 31, 2019	61	405,035
Issuances	–	39,050
Retirements	–	(32,488)
Shares outstanding at December 31, 2020	61	411,597

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 $3.5 million in 2020, $2.8 million in 2019 and $2.5 million in 2018. In 2020, the Association declared a $3.3 million cash patronage which was distributed in February 2021.

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 2020, the Association allocated 29.21 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders’ Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan’s net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive loss of $317 thousand in 2020, $81 thousand in 2019 and $46 thousand in 2018. There were no other items affecting comprehensive income or loss.

The following table presents activity in the accumulated other comprehensive income/(loss), net of tax by component.

(dollars in thousands)	**2020**	2019	2018
Pension and other benefit plans:			
Beginning balance	**$ (81)**	$ (46)	$ (75)
Other comprehensive income/(loss) before reclassifications	**(251)**	(43)	14
Amounts reclassified from accumulated other comprehensive loss	**15**	8	15
Net current period other comprehensive (loss)/income	**(236)**	(35)	29
Year-end balance	**$ (317)**	$ (81)	$ (46)

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

	Amount Reclassified from Accumulated Other Comprehensive Loss December 31			Location of Gain/Loss Recognized in Statement of Income
(dollars in thousands)	**2020**	2019	2018	
Pension and other benefit plans: Net actuarial loss	**$ 15**	$ 8	$ 15	Salaries and employee benefits
Total reclassifications	**$ 15**	$ 8	$ 15	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

(dollars in thousands)	**2020**	2019	2018
CoBank	**$ 3,385**	$ 2,848	$ 3,253
Farm Credit Foundations	**10**	8	6
Total	**$ 3,395**	$ 2,856	$ 3,259

Patronage distributed from CoBank was in cash. The amount earned in 2020 was accrued and will be paid by CoBank in March 2021. During 2020, the Association received additional patronage distribution from CoBank of $584 thousand due to CoBank's strong capital levels and financial results. The amount earned and accrued in 2019 and 2018 was paid by CoBank in March of the following year. In 2018, the Association received a special cash patronage distribution from CoBank of $373 thousand relating to tax reform changes.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2021. 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		
(dollars in thousands)	**2020**	2019	2018
Current:			
Federal	**$ 5**	$ 2	$ 6
State	**2**	–	2
Provision for income taxes	**$ 7**	$ 2	$ 8

The provision for/(benefit from) 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		
(dollars in thousands)	**2020**	2019	2018
Federal tax at statutory rate	**$ 2,343**	$ 2,536	$ 2,612
State tax, net	**1**	–	1
Effect of non-taxable FLCA subsidiary	**(2,414)**	(2,667)	(2,669)
Change in valuation allowance	**98**	87	109
Patronage refunds to borrowers	**–**	–	(46)
Return to provision difference	**(21)**	46	–
Other	**–**	–	1
Provision for income taxes	**$ 7**	$ 2	$ 8

Deferred tax assets and liabilities are comprised of the following.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Deferred income tax assets:			
Allowance for loan losses	**$ 455**	$ 463	$ 490
Nonaccrual loan interest	**4**	7	25
Net operating loss carryforwards	**1,190**	1,042	630
Book/Tax difference in depreciation	**51**	27	27
Charitable contribution carryforward	**1**	1	1
Gross deferred tax assets	**1,701**	1,540	1,173
Deferred tax asset valuation allowance	**(1,383)**	(1,263)	(1,157)
Deferred income tax liabilities:			
Bank patronage allocation	**(298)**	(258)	–
Depletion	**(20)**	(19)	(16)
Gross deferred tax liability	**(318)**	(277)	(16)
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 $1.4 million in 2020, $1.3 million in 2019 and $1.2 million in 2018. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. Due to tax reform, the deferred tax asset recorded for federal and state net operating loss recorded in 2018 to 2020 of $560 thousand have an indefinite carryforward period. The Association had a deferred tax asset recorded for federal and state net operating loss carryforwards of $630 thousand that expire from 2024 to 2036.

The Association has no uncertain tax positions as of December 31, 2020, 2019 or 2018. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2017 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 $57.4 million at December 31, 2020. 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 $359.9 million at December 31, 2020, $333.7 million at December 31, 2019 and $274.4 million at December 31, 2018. The fair value of the plan assets was $302.5 million at December 31, 2020, $252.5 million at December 31, 2019 and $204.9 million at December 31, 2018. 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 its current employees as well as an allocation of the remaining costs based proportionately on the estimated ownership percentage 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 $19.5 million in 2020, $6.8 million in 2019 and $10.8 million in 2018. The Association's allocated share of plan expenses included in salaries and employee benefits was $1.6 million in 2020, $568 thousand in 2019, and $827 thousand in 2018. Participating employers contributed $30.0 million in 2020, $20.0 million in 2019 and $20.0 million in 2018 to the plan. The Association's allocated share of these pension contributions was $2.4 million in 2020, $1.7 million in 2019, and $1.5 million in 2018. 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 2021 is $30.0 million. The Association's allocated share of these pension contributions is expected to be $3.1 million. 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 (primarily health care benefits) included in salaries and employee benefits were income of $4 thousand in 2020, $2 thousand in 2019 and $2 thousand in 2018. The Association made cash contributions of $13 thousand in 2020, $17 thousand in 2019 and $17 thousand in 2018.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $27 thousand in 2020, $19 thousand in 2019 and $25 thousand in 2018.

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

	Nonqualified Pension Restoration Benefits		
(dollars in thousands)	**2020**	2019	2018
Change in benefit obligation:			
Benefit obligation at the beginning of the period	**$ 206**	$ 152	$ 156
Service cost	**7**	5	5
Interest cost	**5**	6	5
Actuarial loss/(gain)	**251**	43	(14)
Benefit obligation at the end of the period	**$ 469**	$ 206	$ 152
Fair value of plan assets at the end of the period	**–**	–	–
Funded status of the plan	**$ (469)**	$ (206)	$ (152)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 469**	$ 206	$ 152
Net amount recognized	**$ 469**	$ 206	$ 152

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

(dollars in thousands)	**2020**	2019	2018
Net actuarial loss	**$ (317)**	$ (81)	$ (46)
Total amount recognized in AOCI/(loss)	**$ (317)**	$ (81)	$ (46)

An estimated net actuarial loss of $68 thousand for the Pension Restoration Plan will be amortized into income over the next year.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

(dollars in thousands)	**2020**	2019	2018
Accumulated benefit obligation	**$ 459**	$ 169	$ 126
Fair value of plan assets	**$ –**	$ –	$ –

Information for pension plans with a projected benefit obligation in excess of plan assets:

(dollars in thousands)	**2020**	2019	2018
Projected benefit obligation	**$ 469**	$ 206	$ 152
Fair value of plan assets	**$ –**	$ –	$ –

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

(dollars in thousands)	**2020**	2019	2018
Components of net periodic benefit cost/(income)			
Service cost	**$ 7**	$ 5	$ 5
Interest cost	**5**	6	5
Net amortization and deferral	**15**	8	15
Net periodic benefit cost	**$ 27**	$ 19	$ 25

Changes in benefit obligation recognized in accumulated other comprehensive income/(loss) are included in the following table.

(dollars in thousands)	**2020**	2019	2018
Current year net actuarial gain/(loss)	**$ (251)**	$ (43)	$ 14
Amortization of net actuarial loss	**15**	8	15
Total recognized in other comprehensive income/(loss)	**$ (236)**	$ (35)	$ 29

Actuarial losses in 2020 and 2019 and actuarial gains in 2018 were primarily due to changes in plan experience, discount rate and the plan demographics.

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

	2020	2019	2018
Discount rate	**1.65%**	2.59%	4.06%
Rate of compensation increase	**5.40%**	5.40%	5.00%
Interest crediting rate	**5.00%**	5.00%	5.00%

Beginning in 2019, the rate of compensation increase for the pension benefits was modified to an age-based scale beginning at 5.50%, decreasing ultimately to 3.50%.

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

	2020	2019	2018
Discount rate			
Projected benefit obligation	**2.59%**	4.06%	3.35%
Service cost	**2.69%**	4.11%	3.39%
Interest cost	**2.49%**	3.93%	3.13%
Rate of compensation increase	**5.40%**	5.00%	5.00%
Interest crediting rate	**5.00%**	5.00%	5.00%

Estimated Future Benefit Payments

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

(dollars in thousands)	Pension Restoration Benefits
2021	$ 7
2022	$ 7
2023	$ 7
2024	$ 39
2025	$ 140
2026 – 2030	$ 974

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) 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 the Contribution Plan were $512 thousand in 2020, $490 thousand in 2019 and $438 thousand in 2018.

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 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.

(dollars in thousands)	**2020**	2019	2018
Beginning balance	**$ 19,048**	$ 16,415	$ 14,841
New loans	**22,266**	17,453	16,313
Repayments	**(21,701)**	(14,820)	(15,474)
Reclassifications*	**109**	–	735
Ending balance	**$ 19,722**	$ 19,048	$ 16,415

* Represents loans that were once considered related party, but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2020 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $2.3 million in 2020, $2.1 million in 2019 and $1.8 million in 2018 to AgVantis for technology services. One Association officer serves as an AgVantis' director. The Association paid $128 thousand in 2020, $114 thousand in 2019, and $106 thousand in 2018 to Foundations for human resource services and payments to CoBank for operational services were $18 thousand in 2020, $20 thousand in 2019 and $21 thousand in 2018.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

As of December 31, 2020, there were no enforcement actions in effect for the Association and FCA took no enforcement on the Association during the year.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

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, 2020, $184.0 million of commitments to extend credit and $119 thousand 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 these commitments, 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, 2020, $341 thousand of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2021 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $341 thousand. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio.

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.

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

	Fair Value Measurement Using			Total Fair
(dollars in thousands)	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefits trusts				
2020	**$ 766**	**$ –**	**$ –**	**$ 766**
2019	$ 591	$ –	$ –	$ 591
2018	$ 472	$ –	$ –	$ 472

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

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

(dollars in thousands)	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Loan Assets				
2020	**$ –**	**$ –**	**$ –**	**$ –**
2019	$ –	$ –	$ 45	$ 45
2018	$ –	$ –	$ 680	$ 680

The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented. During the three years presented, the Association recorded no transfers in or out of Level 3 and no purchases or issuances.

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. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement.

Assets Held in Non-Qualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. These loans have fair value measurements that fall within Level 3 of the fair value 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.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2020, 2019, and 2018, follow.

	2020				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 5,841**	**$ 5,856**	**$ 5,817**	**$ 6,064**	**$23,578**
Provision for credit losses/(Credit loss reversal)	**83**	**52**	**3**	**(62)**	**76**
Noninterest expenses, net	**2,959**	**2,799**	**3,102**	**3,493**	**12,353**
Net income	**$ 2,799**	**$ 3,005**	**$ 2,712**	**$ 2,633**	**$11,149**

	2019				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 5,440	$ 5,405	$ 5,394	$ 5,865	$22,104
(Credit loss reversal)/Provision for credit losses	(147)	151	(39)	(36)	(71)
Noninterest expenses, net	2,103	2,398	2,541	3,059	10,101
Net income	$ 3,484	$ 2,856	$ 2,892	$ 2,842	$12,074

	2018				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 5,001	$ 4,983	$ 5,103	$ 5,341	$20,428
(Credit loss reversal)/Provision for credit losses	(32)	8	(42)	(169)	(235)
Noninterest expenses, net	1,680	2,141	1,715	2,698	8,234
Net income	$ 3,353	$ 2,834	$ 3,430	$ 2,812	$12,429

NOTE 16 – SUBSEQUENT EVENTS

On January 1, 2021, the Association merged operations with AgPreference, ACA. The merger successfully united two outstanding organizations that created a financial institution of greater capital, capacity, and human resources to serve agriculture and rural Oklahoma. The merged association will conduct business as Farm Credit of Western Oklahoma, ACA with headquarters located in Woodward, Oklahoma.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification 805 Business Combinations (ASC 805). As the accounting acquirer, Farm Credit of Western Oklahoma, ACA recognized the identifiable assets acquired and liabilities assumed in the merger as of January 1, 2021 at their respective fair values. There was no goodwill recorded in connection with the transaction. The fair values are based on various assumptions that management believes are reasonable utilizing information currently available.

The Association has evaluated subsequent events through March 9, 2021 which is the date the financial statements were issued, and no other 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 as of December 31, 2020:

Location	Description	Form of Ownership
3302 Williams Avenue Woodward, Oklahoma	Headquarters Office	Owned
2600 Modelle Avenue Clinton, Oklahoma	Branch Office	Owned
2143 Highway 64 North Guymon, Oklahoma	Branch Office	Owned
219 Oklahoma Blvd Alva, Oklahoma	Branch Office	Owned
101 Carter Road Elk City, Oklahoma	Branch Office	Rented
513 South Mission St. Anadarko, Oklahoma	Branch Office	Owned
4955 Farm Credit Drive Tuttle, Oklahoma	Branch Office	Owned
430 North Broadway Taloga, Oklahoma	Satellite Office	Owned
819 Douglas Avenue Beaver, Oklahoma	Satellite Office	Rented
204 West Main, Suite 1 Boise City, 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 to the financial statements, "Commitments and Contingencies" included in this annual report to shareholders.

Selected Financial Data

The selected financial data for the five years ended December 31, 2020, 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

Steve Semmel - Chairman. Mr. Semmel became Chairman of the Board in January 2021 and was first elected to the Board in 2003. For the past five years he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of wheat, cow/calf, stocker cattle, hay, and improved grasses. He is a partner with his son in S & S Farm & Ranch, a cattle-wheat business and a partner and Secretary of NAPA, an auto parts store in Woodward, Oklahoma. Mr. Semmel is a partner and Vice-President of OK Rental Equipment, an oilfield equipment rental business and is a member of the Woodward County Excise Board, a non-elected county budget and tax board. He is a former member/Chairman of the Woodward Elks Rodeo Committee, a local organization to promote the annual rodeo. Mr. Semmel was elected to a three-year term expiring in 2021.

Kenton Javorsky - Vice Chairman. Mr. Javorsky became Vice Chairman of the board in January 2021 and was first elected to the Board in 2009. For the past five years he has been engaged in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, cotton, milo, sesame, hay, canola, and cow/calf production, together with custom planting and custom harvesting. Mr. Javorsky is President of Welderson Farms Inc., a family farming operation. Mr. Javorsky serves as a member of the Corn Bible Academy Relocation Committee, a Christian school located in Corn, Oklahoma. He was formerly on the Board of Directors of Midwest Farmer's Coop, a cotton gin, feed, fertilizer and fuel coop, a former board member of Friends of Christian Education, an education group in Western Oklahoma, and former board member and Chairman of the Western Oklahoma Christian School, a private elementary school in Clinton, Oklahoma. Mr. Javorsky was elected to a three-year term expiring in 2021.

Steve Calhoun - Director. Mr. Calhoun joined the Board in October 2014 and has been an elected director since 2012, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Calhoun became Vice-Chairman of the Risk/Technology Committee in January 2021. For the past five years he has been involved in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, wheat, and hay production. Mr. Calhoun is an employee and manager of Ross Seed Company, a farm supply store in Chickasha, Oklahoma. He is President of Bar-K Inc., a family farming corporation and owner of Steve Calhoun Farms, a family farming operation. Mr. Calhoun serves as a director for the Grady County Farm Bureau Board, a volunteer organization of farm and ranch families and serves as Treasurer for the Grady County Alfalfa Board, an organization to promote the Grady County alfalfa industry. He is a member of the Special Young Adults Program Board, an organization supporting young adults with special needs. He previously served as board member, Vice-President and President of the Oklahoma Crop Improvement Foundation and previously as board member, Vice-President and President of the Grady County FSA Committee. Mr. Calhoun was elected to a three-year term expiring in 2021.

Ricky Carothers	-	Director. Mr. Carothers joined the Board in October 2014 and has been an elected director since 2003, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Carothers currently serves as a member of the Compensation Committee. For the past five years he has been engaged in production agriculture in Southwestern Oklahoma with principal enterprises consisting of wheat, cotton, cow/calf, and stocker cattle production. He is Manager of Carothers Farms, a family farming operation. He is a member of the Farm Service Agency County Committee, a U.S. Department of Agriculture farm community organization. Mr. Carothers was elected to a three-year term expiring in 2021.
Stephanie Craighead	-	Appointed Director. Ms. Craighead became Vice-Chairwoman of the Audit Committee in January 2021. Ms. Craighead was first appointed to the Board in July 2015. For the past five years she has been engaged in production agriculture in Northwest Oklahoma with a principal enterprise of beef cattle. In October 2014, Ms. Craighead accepted the Chief Financial Officer position with Road Runner Trucking LLC and Road Runner Crane LLC, a Woodward, Oklahoma trucking and crane service company, and held that position until November 2016. Ms. Craighead is a member of Craighead Ranch LLC and member-Secretary of C & S Cattle Company, both of which are family ranching operations. She is a member of Twin Hills LLC, a residential development company and a member of Craighead-ILIFF LLC, a commercial property business. Ms. Craighead is a Plains Indians and Pioneer Museum Board member and Treasurer, an organization to collect and preserve the history of Northwest Oklahoma. Ms. Craighead is a CPA, and past member of the Oklahoma Society of Certified Public Accountants, and a Seminar Instructor for various areas of taxation. In addition, Ms. Craighead and her husband are involved in real estate development. She is a past board member of Craighead & Dersch and a past board member of the Miss N.W. Passage Pageants. Ms. Craighead was appointed to a three-year term expiring in 2021.
David Dolch	-	Director. Mr. Dolch joined the Board in October 2014 and has been an elected director since 2012, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Dolch became Vice-Chairman of the Compensation Committee in January 2021. For the past five years he has been engaged in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, club calves, and cattle semen sales. Mr. Dolch is an employee and assistant manager of Clinton Livestock Auction, a livestock auction service. He also serves as President of Verden Ag Boosters, an organization supporting local youth. Mr. Dolch was elected to a three-year term expiring in 2023.
Mark Graf	-	Director. Mr. Graf was first elected to the Board in 2016 and he currently serves as a member of the Risk/Technology Committee. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, cow/calf, cotton, milo, sesame, black eyed peas, soybeans and sunflowers. Mr. Graf is also involved in fertilizer sales, commercial spraying, commercial planting, custom harvesting, custom swathing, custom baling, oil and gas, and the selling and installation of vinyl fencing. He is the owner of M Ag, a family commercial spraying and fertilizer business and managing member of 4 MV Farms LLC, a family business involved in the transportation of raised products. Mr. Graf is Chairman of the Board for Corn Bible Academy, a Christian school located in Corn, Oklahoma. Mr. Graf formerly served as Chairman of the Senate at Tabor College where he earned a bachelor’s degree in computer science. Mr. Graf was elected to a three-year term expiring in 2022.

Dennie Jenkins	-	Director. Mr. Jenkins was first elected to the Board in 2013 and he currently serves as a member of the Risk/Technology Committee. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of registered Angus cattle and wheat/wheat seed, together with custom seed cleaning, custom farming and custom hay swathing-baling. He is Secretary-Treasurer of the OK&T Angus Breeders Association Board, an association to merchandise registered Angus cattle and serves as Secretary for the Ellis County Farm Bureau Board, a volunteer organization of farm and ranch families. Mr. Jenkins is Secretary-Treasurer of the Catesby, Oklahoma Volunteer Fire Department and a former member/Chairman on the Northwest Cattlemen's Association Board, an organization to advance the beef industry. Mr. Jenkins was elected to a three-year term expiring in 2022.
Nathan Johnson	-	Director . Mr. Johnson was first elected to the Board in 2018 and he currently serves as a member of the Risk/Technology Committee. For the past five years he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of corn, milo, wheat and cow/calf. Mr. Johnson serves as a Cimarron County NRCS committee member, a U.S. Department of Agriculture Conservation District, and as President of the Cimarron County Stock Show Board, an organization to advance the local stock show. Mr. Johnson was elected to a three-year term expiring in 2021.
Tyler Kamp	-	Director. Mr. Kamp was first elected to the Board in 2014 and he currently serves as a member of the Audit Committee. For the past five years he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of cow/calf, stocker cattle, wheat, sudan, milo, and silage together with custom hay swathing-baling. He is a former member and former Vice President of the Lavern Coop Board, a feed, fertilizer, and fuel cooperative and a former volunteer of the Slapout, Oklahoma Fire Department. Mr. Kamp is a member of the Harper County Stock Show Committee, an organization to advance the local stock show. Mr. Kamp was elected to a three-year term expiring in 2023.
Jimmie Purvine	-	Director. Mr. Purvine was first elected to the Board in 2005 and he currently serves as a member of the Audit Committee. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, milo, hay, soybeans, corn, silage, beans, cow/calf, and stocker cattle. He is President of Purvine Farms, Inc., a family farming business and a member of the Dewey County Conservation District Board, a State of Oklahoma organization to improve conservation practices. Mr. Purvine was elected to a three-year term expiring in 2023.
Alan Schenk	-	Director. Mr. Schenk joined the Board in October 2014 and has been an elected director since 2004, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Schenk currently serves as a member of the Audit Committee. For the past five years he has been engaged in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, stocker cattle, wheat, and alfalfa. He is the former President and current Vice-President of DO-BE Holstein Farms, Inc., a family farming corporation. Mr. Schenk was elected to a three-year term expiring in 2022.
Bobby Tarp	-	Appointed Director. Mr. Tarp joined the Board in October 2014 and has been an appointed director since 1993, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Tarp currently serves as a member of the Compensation Committee. For the past five years he has been engaged in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, stocker cattle, corn, wheat and hay. He is a former member of the Farm Service Agency County Committee, a U.S. Department of Agriculture farm community organization. Mr. Tarp was appointed to a three-year term expiring in 2023.
Troy White	-	Director. Mr. White became Compensation Committee Chairman in January 2021. Mr. White was first elected to the Board in 2017. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of stocker cattle, cow/calf and wheat. Mr. White serves as Woodward County Commissioner for District I and as President of Bull Creek Cattle Company, a family farming corporation. He is involved in commercial property ownership and management as managing member of Bull Creek Properties LLC, Managing member of Hillcrest Property Management LLC, and as President of Bull Creek Enterprises, Inc. Mr. White serves on the Trust Committee

of the NW Oklahoma Solid Waste Disposal Authority, a landfill in Woodward County, Oklahoma. He is a past member/President of the Mooreland Public Schools Board of Education. Mr. White was elected to a three-year term expiring in 2023.

The following AgPreference, ACA directors became Farm Credit of Western Oklahoma, ACA directors effective January 1, 2021 due to the merger of the associations.

Brandon Denton	-	Director. Mr. Denton's principal occupation is farming and ranching and he currently serves as a member of the Risk/Technology Committee. He also has a custom hay baling operation. He has been an Association member for 8 years. He also serves on the Conservation District Board for Jackson County. He is a member of the Church of Christ. Mr. Denton is serving a three-year term which expires in 2023.
Roger Fischer	-	Director. Mr. Fischer became Chairman of the Risk/Technology Committee in January 2021. Mr. Fischer has been farming since 1976. He is a 1975 graduate of Cameron University. Mr. Fischer has been an Association member for 38 years. He is a member of the board of directors of Oklahoma Cotton Council. He is a member of the Peace Congregational Church. Mr. Fischer is serving a three-year term that expires in 2021.
John Huddleston	-	Director. Mr. Huddleston's principal occupation has been farming since 1965 and he currently serves as a member of the Risk/Technology Committee. He is an auctioneer and real estate broker. Mr. Huddleston has been an Association member for 43 years. He is a member of the Masonic Lodge and the First Baptist Church. Mr. Huddleston is serving a three-year term which expires in 2021.
Lonnie Olson	-	Appointed Director. Mr. Olson became Chairman of the Audit Committee in January 2021. Mr. Olson is a graduate of Oklahoma State University. Mr. Olson resides in Hobart, Oklahoma. He has worked for Edward Jones Investments as a Financial Advisor since 1997. He also has rental properties and a cattle operation. He is President of the Hobart Community Foundation, serves on the board of Kiowa County Economic Development and on the Kiowa County 529 Ambulance Board. He is President of a private corporation and a member of the Hobart Kiwanis Club. Mr. Olson is a member of the Hobart Church of Christ. Mr. Olson is serving a three-year term that expires in 2023.
Robert Peeler	-	Director. Mr. Peeler's principal occupation is farming and ranching and he currently serves as a member of the Compensation Committee. He has been involved in farming since 2004. He has been an Association member for 7 years. He also serves of the Reed Water Corporation Board of Directors and the Greer County FSA Farm Committee. He also serves on the Reed Volunteer Fire Department and is a member of the Sulphur Baptist Church. Mr. Peeler is serving a three-year term which expires in 2023.
Robert Williams	-	Director. Mr. Williams' principal occupation is farming/ranching and he currently serves as a member of the Audit Committee. He has been involved in farming since 1990. Mr. Williams has been an Association member for 25 years. He is a graduate of Oklahoma State University with a degree in ag economics. He also serves on the Board of Regents for Western Oklahoma State College, the board of Baptist Medical and Dental Missions International, Harmon County Civic Trust and the Harmon County Water Corporation. Mr. Williams is serving a three-year term which expires in 2022.

SENIOR OFFICERS

John Grunewald	-	President and Chief Executive Officer. Mr. Grunewald has served the Farm Credit System since June 2, 1980. Mr. Grunewald was appointed President and Chief Executive Officer effective July 2001. Prior to joining the Association, he was President and Chief Executive Officer of the Clinton Production Credit Association. Mr. Grunewald has served in a variety of positions including 28 years as Chief Executive Officer. He is a member of the Farm Bureau Foundation Board, an organization to promote Oklahoma agriculture and serves on the Board for the Oklahoma Agricultural Enhancement Program, an organization to develop agriculture programs in Oklahoma. Mr. Grunewald serves on the National FFA Sponsors Board, a board to support the National FFA and on the National FFA Foundation Board, a foundation for the benefit of the National FFA. Mr. Grunewald also serves on the AgVantis, Inc. Board, a company that develops and provides services to Farm Credit Associations. He is a past member of the National Young Farmers Education Association Board, an organization to promote young farmers and ranchers and a past

member of the Oklahoma Grain & Stocker Producers Board, an organization to promote grain and stocker producers in Oklahoma. Mr. Grunewald is also a past member of the Panhandle Regional Economic Development Board, an organization to promote economic growth in the Oklahoma Panhandle and a past board member of the Oklahoma State Chamber.

Blake Byrd	-	Senior Executive Vice President and Chief Banking Officer. Mr. Byrd has served the Farm Credit System since June 6, 1988 and was appointed Senior Executive Vice President and Chief Banking Officer effective October 2014 following the merger with Farm Credit of Central Oklahoma. Prior to joining the Association, Mr. Byrd served in a range of management positions with Farm Credit of Central Oklahoma including Chief Executive Officer, Chief Financial Officer and Chief Credit Officer. In addition, Mr. Byrd is involved in residential rental property.
Mike McDonald	-	Executive Vice President and Chief Credit Officer. Mr. McDonald has served the Farm Credit System since January 31, 1996. He was appointed Chief Credit Officer effective December 2003. Mr. McDonald has served in a variety of roles with Farm Credit as well as the commercial banking industry. Mr. McDonald runs a part-time family farming-ranching operation. He is involved in residential rental properties and oil/gas activity.
Greg Livingston	-	Executive Vice President and Chief Lending Officer. Mr. Livingston has served the Farm Credit System since January 2, 1992. He was appointed Chief Lending Officer effective January 2008. Mr. Livingston has served in a variety of management positions including Chief Operating Officer and Vice President of Business Development-Marketing. Mr. Livingston operates a part-time family farming-ranching operation. He is a past member of the Dewey County FSA Board, a U.S. Department of Agriculture farm community organization, a past member of the Red Angus Association of America Finance Committee, an organization to advance the Red Angus industry, and a former board member/President of the Brumfield Cemetery Association Board, an organization for the preservation and upkeep of the local cemetery. Mr. Livingston serves on the Dewey County Fair Board, an advisory group for the county fair association and serves on the Seiling Round-Up Club Board, a local organization to promote the Seiling, Oklahoma rodeo. He serves on the Seiling Economic Development Authority board, an organization to advance economic development in Seiling and on the Seiling Education Foundation board, a foundation to promote and raise money for the education of Seiling students.
Jamey Mitchell	-	Vice President and Chief Financial Officer. Mr. Mitchell has served the Association since April 21, 2003. He was appointed Vice President and Chief Financial Officer effective May 2015. Mr. Mitchell has served in various roles including Loan Officer and Vice President-Branch Manager. Mr. Mitchell began his career with PricewaterhouseCoopers LLP as a staff accountant. He is a CPA and a member of the Oklahoma Society of Certified Public Accountants. Mr. Mitchell runs a part time family ranching operation and serves as Mayor of Texhoma, Oklahoma, a small community in the Oklahoma Panhandle. He also serves as Chairman of the Texhoma Housing Authority, an organization to promote housing in Texhoma.
Russell Strecker	-	Vice President and Chief Risk Officer. Mr. Strecker has served the Farm Credit System since June 14, 1993 and was appointed Vice President and Chief Risk Officer effective October 2014 following the merger with Farm Credit of Central Oklahoma. Prior to joining the Association, Mr. Strecker had served in a range of positions with Farm Credit of Central Oklahoma including Chief Credit Officer. He serves as Treasurer on the Caddo County 4-H Foundation Board, an organization promoting local youth and serves as Vice President on the Caddo County Sirloin Club Board, an organization supporting the Caddo County Free Fair. Mr. Strecker serves as Treasurer on the Caddo County Farmers Market Board, an organization promoting small-local agriculture in Caddo County, Oklahoma and serves as President on the Caddo County Cattlemen's Association Board, an organization to advance the beef industry. He also serves on the Anadarko Municipal Airport Board, an organization to promote and advance the airport in Anadarko. Mr. Strecker operates a part time farming/ranching operation and owns rental property.
Sandy Jones	-	Vice President and Chief Administrative Officer. Ms. Jones has served the Farm Credit System since January 24, 1990 and was appointed Vice President of Corporate Operations and Human Resources Administrator following a merger with Farm Credit of Central Oklahoma in October 2014. In February 2020, Ms. Jones accepted the role of

Vice President and Chief Administrative Officer. Ms. Jones has served in a variety of operational and management positions throughout her career including Operations Supervisor and Human Resources Administrator.

Jeff Wasson - Vice President and Chief Information Officer. Mr. Wasson has served Farm Credit of Western Oklahoma since August 1, 2013 and was appointed Vice President and Chief Information Officer in February, 2020. Prior to joining the Association full time, Mr. Wasson served the Farm Credit System as well as other area businesses in the capacity of contract IT support. Mr. Wasson is in partnership with his wife in a part-time family fabrication business.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

The directors of the Association are paid a monthly stipend of $1,500 per month. The Board Chairman is paid a monthly stipend of $1,800, while the Audit Committee Chairperson is paid $1,700 per month. The Vice Chairman of the Board, the Risk/Technology Committee Chairman, and the Compensation Committee Chairman are each paid a monthly stipend of $1,600. Audit Committee, Compensation Committee and Risk/Technology Committee meetings are normally held in conjunction with regularly scheduled board meetings. If for some reason a meeting is not held in conjunction with a regularly scheduled board meeting, no additional compensation is paid to the directors other than the mileage reimbursement. Compensation includes travel expenses for spouse/guest travel related to the Board members' official duties. In addition, a stipend of $600 per day is paid to a director attending a training related meeting or event. Association directors and employees were reimbursed for actual, necessary, and usual travel and subsistence expenses and mileage at the rate of $0.575 per mile.

Additional information for each director is provided below. Compensation disclosed below pertains only to Farm Credit of Western Oklahoma directors for 2020.

	Number of Days Served at		
Name	Board Meetings	Other Official Activities	Total Compensation for Board Meetings and Other Official Duties
Steve Semmel	10	6	$ 20,253
Kenton Javorsky	10	1	19,200
Steve Calhoun	10	5	19,200
Ricky Carothers	10	3	18,961
Stephanie Craighead	9	–	20,400
David Dolch	10	1	18,000
Mark Graf	10	1	18,000
Dennie Jenkins	10	1	18,000
Nathan Johnson	10	1	18,000
Tyler Kamp	10	–	18,000
Jimmie Purvine	10	1	18,000
Alan Schenk	10	6	21,600
Bobby Tarp	10	–	18,000
Troy White	9	7	18,000
Total Compensation			$ 263,614

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 $31,689 in 2020, $116,713 in 2019 and $100,103 in 2018. There was no non-cash compensation paid to directors during 2020.

		Annual					
President and CEO	Year	Salary	Incentive Plan	Change in Pension Value	Deferred/ Perquisites	Other	Total
John Grunewald	2020	$ 322,452	$ 39,908	$ 411,328	$ 14,904	$ 19,906	$ 808,498
John Grunewald	2019	$ 316,132	$ 54,622	$ 681,178	$ 17,161	$ 18,535	$1,087,628
John Grunewald	2018	$ 299,056	$ 67,568	$ (31,659)	$ 18,114	$ 16,512	$ 369,591

Aggregate Number of Senior Officers/Highly compensated Individuals (excluding CEO)	Year	Annual Salary	Annual Incentive Compensation	Annual Change in Pension Value	Annual Deferred/ Perquisites	Annual Other	Total
9	2020	$ 1,710,943	$ 274,008	$2,386,861	$ 186,802	$ 181,813	$ 4,740,427
6	2019	$ 1,309,739	$ 236,236	$2,273,014	$ 157,795	$ 115,266	$ 4,092,050
6	2018	$ 1,230,108	$ 304,906	$ 353,746	$ 134,841	$ 99,891	$ 2,123,492

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

The change in value of the pension benefits is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the previous year, disclosed in Note 10 of the Financial Statements. No tax reimbursements are made to senior officers/highly compensated individuals.

Deferred/Perquisites represents reimbursements for unused annual leave for active employees, vehicle expense, miscellaneous fringe benefits, employer match on a nonqualified deferred compensation plan, and life insurance and long-term disability premiums.

Other represents Christmas bonuses, reimbursement for unused annual leave on retired employees, and employer match on a defined contribution plan available to all employees.

In addition to base salary, senior officers can earn additional compensation under either an annual bonus or an incentive plan, which relates to the overall business performance and the individual's rating. These plans are designed to motivate employees to exceed financial and credit quality performance targets approved by the Board of Directors. These targets typically include return on assets, credit quality, credit administration, new loan volume, nonaccrual loan volume, cost of operations, permanent capital and other key ratios. Bonus payments are paid in the first quarter of each year based on the performance of January 1 through December 31 of the previous year.

Retirement Plan Overview – The CEO participates in two defined benefit retirement plans: (a) the Ninth Farm Credit District Pension Plan (Pension Plan), which is a qualified defined benefit plan and (b) the Former Ninth and Eleventh District Employers Pension Restoration Plan (Pension Restoration Plan), which is a nonqualified retirement plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. Certain eligible employees participate in the Farm Credit Foundations Nonqualified Deferred Compensation Plan, which allows individuals to defer compensation and which restores the benefits limited in the 401(k) Plan by restrictions in the Internal Revenue Code. Information on pension benefits attributable to the senior officers and other highly compensated individuals follows.

As of December 31, 2020 President/CEO	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
John Grunewald	Pension Plan	42.54	$ 3,865,685	$ –
	Pension Restoration Plan	42.54	$ 236,892	$ –

Aggregate Number of Senior Officers/ Highly Compensated Individuals	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
5	Pension Plan	32.29	$ 10,792,047	$ 87,137
2	Pension Restoration Plan	35.36	$ 220,775	$ –

For the Pension Plan and the Pension Restoration Plan, the average years of service represents an average for the aggregate senior officers and highly compensated employee group.

Pension Plan – In general, the Pension Plan is a qualified plan and provides participants with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which the High 60 exceeds covered compensation multiplied by years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a 50% joint-and-survivor annuity, such as a lump sum distribution. The pension valuation was determined using a blended approach assuming half of the benefits would be paid as a lump sum and half as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Pension Restoration Plan – The Pension Restoration Plan is unfunded and nonqualified for tax purposes. Benefits payable under this plan are equal to the excess of the amount that would be payable under the terms of the Pension Plan disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Pension Plan. The plan also restores any benefits attributable to nonqualified deferred compensation excluded from the benefit determined under the Pension Plan. The nonqualified pension restoration valuation was determined using an assumption that benefits would be paid as a lump sum at the participants earliest unreduced retirement age.

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. The Association's 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.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS, RANCHERS AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The Association's information required to be disclosed in this section is incorporated herein by reference from the "Young, Beginning and Small Farmers and Ranchers Program" section of the Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report to shareholders.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2021, 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 2020 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.

Eight Locations

Anadarko
513 S Mission
405.247.2421

Altus
3120 N Main St
580.482.3030

Alva
219 Oklahoma Blvd
580.327.0870

Clinton
2600 Modelle Ave
580.323.0342

Guymon
2143 Hwy. 64 N
580.338.3828

Tuttle
4955 Farm Credit Dr
405.381.3000

Woodward
3302 Williams Ave
580.256.3465

Elk City
101 Carter Rd
580.821.9200