

Farm Credit of Central Oklahoma, ACA



**Quarterly Report
March 31, 2014**

The shareholders' investment in Farm Credit of Central Oklahoma, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2012 CoBank Annual Report to Shareholders, the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's web site, www.cobank.com, or may be obtained at no charge by contacting us at Farm Credit of Central Oklahoma, ACA, 513 S. Mission, P.O. Box 910, Anadarko, Oklahoma 73005, or by calling 405-247-2421 or 1-800-585-2421.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Central Oklahoma, ACA for the three months ended March 31, 2014, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2013 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

During the first quarter of 2014, economic conditions in the region have remained stable. The United States economy continues to be mired in what economists call a "growth recession", whereby growth is not strong enough to cause a significant drop in unemployment. The condition of the general national and global economies remains precarious after the severe recession of 2009 and the potential of another national and/or global economic downturn would definitely impact local agriculture and the optimism for many local producers.

Wheat prices remained stable from year end and should provide a favorable outlook for area producers. Current moisture and growing conditions vary throughout the loan servicing area with favorable conditions in some areas with recent rainfall, while other areas experience moderate drought conditions. Beef prices have remained strong since year end and most area cow/calf and stocker producers continue to see profitable operations. The continued outlook for commodity prices over the near term provides some level of optimism for local producers over the planning horizon.

LOAN PORTFOLIO

Loans outstanding at March 31, 2014 totaled \$123.9 million, an increase of \$1.2 million or 1.00%, from loans of \$122.6 million at December 31, 2013. The increase was primarily due to \$3.2 million in new loans, offset by payoffs and pay down on existing loans.

OTHER PROPERTY OWNED

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had no other property owned at March 31, 2014 and December 31, 2013.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2014 was \$475 thousand, a decrease of \$126 thousand, or 20.97%, from the same period ended one year ago.

Net interest income for the three months ended March 31, 2014 was \$859, an increase of \$10 thousand, or 1.18%, compared with March 31, 2013. Net interest income increased as a result of a decrease in interest expense on note payable to CoBank, offset by a decrease in total interest income on loans.

The loan loss reversal for the three months ended March 31, 2014 was \$3 thousand, a decrease of \$1 thousand, or 25.00%, from the loan loss reversal for the same period ended one year ago. The loan loss reversal is attributed to an improved risk profile of the portfolio.

Noninterest income decreased \$8 thousand during the first three months of 2014 compared with the first three months in 2013 primarily due to decreases in fee and other income received offset by increases in patronage income from received from CoBank.

We received mineral income of \$37 thousand during the first three months of 2014, which is distributed to us quarterly by CoBank.

During the first three months of 2014 compared with the first three months in 2013, noninterest expense increased \$127 to \$545 thousand, primarily due to an increase of \$8 thousand in operating expense in addition to an offset of \$118 thousand gain recognized on other property owned in 2013 and not in 2014.

CAPITAL RESOURCES

Our shareholders' equity at March 31, 2014 was \$33.1 million, a decrease from \$33.2 million at December 31, 2013. This decrease is due to stock reductions and patronage distributions, offset by net income and the amortization of pension costs included in the net periodic benefit cost.

On January 23, 2014, the Association's Board of Directors signed a letter of intent to pursue a merger with Farm Credit of Western Oklahoma, ACA, another Farm Credit System association. The Letter of Intent states an anticipated merger date of January 1, 2015. Subsequent to signing the letter, both Associations are exploring the possibility of moving the date into 2014. The proposed merger will require shareholder and the regulator's approval. The Association does not expect there to be any material negative impact to its operations as a result of the merger.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

"Signature on File"

Bobby Tarp
Chairman of the Board
May 5, 2014

"Signature on File"

Blake Byrd
President and CEO
May 5, 2014

"Signature on File"

Michael C. Prochaska
Sr. Vice President and CFO
May 5, 2014

Consolidated Statement of Condition

(Dollars in Thousands)

	March 31 2014	December 31 2013
	UNAUDITED	AUDITED
ASSETS		
Loans	\$ 123,850	\$ 122,621
Less allowance for loan losses	198	201
Net loans	123,652	122,420
Cash	122	329
Accrued interest receivable	1,753	1,544
Investment in CoBank	3,705	3,705
Premises and equipment, net	169	177
Prepaid benefit expense	128	180
Other assets	338	653
Total assets	\$ 129,867	\$ 129,008
LIABILITIES		
Note payable to CoBank	\$ 94,552	\$ 94,144
Advance conditional payments	1,085	609
Accrued interest payable	710	710
Accrued benefits liability	107	106
Other liabilities	267	283
Total liabilities	96,721	95,852
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	608	609
Unallocated retained earnings	32,573	32,585
Accumulated other comprehensive income/(loss)	(35)	(38)
Total shareholders' equity	33,146	33,156
Total liabilities and shareholders' equity	\$ 129,867	\$ 129,008

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended March 31	
	2014	2013
INTEREST INCOME		
Loans	\$ 1,469	\$ 1,476
Total interest income	1,469	1,476
INTEREST EXPENSE		
Note payable to CoBank	609	626
Other	1	1
Total interest expense	610	627
Net interest income	859	849
Loan loss reversal	(3)	(4)
Net interest income after loan loss reversal	862	853
NONINTEREST INCOME		
Loan fees	6	9
Patronage refund from Farm Credit Institutions	105	103
Mineral income	37	38
Other noninterest income	10	16
Total noninterest income	158	166
NONINTEREST EXPENSE		
Salaries and employee benefits	301	307
Occupancy and equipment	15	12
Purchased services from AgVantis, Inc.	82	81
Gains on other property owned, net	1	(118)
Farm Credit Insurance Fund premium	27	21
Supervisory and examination costs	12	12
Other noninterest expense	107	103
Total noninterest expense	545	418
Net income	475	601
OTHER COMPREHENSIVE INCOME		
Amortization of retirement costs	3	3
Comprehensive income	\$ 478	\$ 604

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNADUITED	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2012	\$ -	\$ 612	\$ 31,148	\$ (14)	\$ 31,746
Comprehensive income			601	3	604
Stock issued	-	17			17
Stock retired	-	(17)			(17)
Patronage distributions: Cash			(460)		(460)
Balance at March 31, 2013	\$ -	\$ 612	\$ 31,289	\$ (11)	\$ 31,890
 Balance at December 31, 2013	 \$ -	 \$ 609	 \$ 32,585	 \$ (38)	 \$ 33,156
Comprehensive income			475	3	478
Stock issued	-	16			16
Stock retired	-	(17)			(17)
Patronage distributions: Cash			(487)		(487)
Balance at March 31, 2014	\$ -	\$ 608	\$ 32,573	\$ (35)	\$ 33,146

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

UNAUDITED	For the three months ended March 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 475	\$ 601
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation	16	14
Loan loss reversal	(3)	(5)
Change in assets and liabilities:		
Increase in accrued interest receivable	(209)	(234)
Decrease in prepaid benefit expense	52	71
Decrease in other assets	315	290
Decrease in accrued interest payable	-	(38)
Increase/(Decrease) in accrued benefits liability	4	(21)
Decrease in other liabilities	(16)	(594)
Total adjustments	159	(517)
Net cash provided by operating activities	634	84
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in loans, net	(1,229)	(3,219)
Expenditures for premises and equipment, net	(8)	-
Net cash used in investing activities	(1,237)	(3,219)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net draw on note payable to CoBank	408	3,503
Increase in advance conditional payments	476	107
Capital stock retired	(17)	(17)
Capital stock issued	16	17
Cash patronage distributions paid	(487)	(460)
Net cash provided by financing activities	396	3,150
Net (decrease)/increase in cash	(207)	15
Cash at beginning of year	329	191
Cash at end of year	\$ 122	\$ 206
SUPPLEMENTAL CASH INFORMATION:		
Cash paid during the year for interest	\$ 610	\$ 665
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Change in accumulated other comprehensive income/loss	\$ 3	\$ 3

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

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Central Oklahoma, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2013, are contained in the 2013 Annual Report to Shareholders. These unaudited first quarter 2014 financial statements should be read in conjunction with the 2013 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2013 as contained in the 2013 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Descriptions of the significant accounting policies are included in the 2013 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance will not impact the financial condition or results of operations, but will result in additional disclosures.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations, and conform with generally accepted accounting principles and prevailing practices within the banking industry. The results for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the year ended December 31, 2014.

NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	March 31, 2014	December 31, 2013
Real estate mortgage	\$ 96,401	\$ 97,420
Production and intermediate-term	14,708	12,557
Agribusiness:		
Loans to cooperatives	2,000	2,000
Processing and marketing	4,144	4,170
Farm-related business	533	362
Communication	2,996	2,998
Energy	957	961
Rural residential real estate	2,111	2,153
Total loans	\$ 123,850	\$ 122,621

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold during the quarter ended March 31, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 1,527	\$ 6,893	\$ 2,487	\$ —	\$ 4,014	\$ 6,893
Production and intermediate-term	1,016	354	370	—	1,386	354
Agribusiness	5,774	—	—	—	5,774	—
Communication	2,995	—	—	—	2,995	—
Energy	957	—	—	—	957	—
Total	\$ 12,269	\$ 7,247	\$ 2,857	\$ —	\$ 15,126	\$ 7,247

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2014	December 31, 2013
Real estate mortgage		
Acceptable	98.83%	98.81%
OAEM	0.61%	0.62%
Substandard	0.56%	0.57%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	99.80%	99.77%
Substandard	0.20%	0.23%
Total	100.00%	100.00%
Agribusiness		
Acceptable	94.45%	94.02%
Substandard	5.55%	5.98%
Total	100.00%	100.00%
Communication		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Energy		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Rural residential real estate		
Acceptable	91.08%	91.11%
Substandard	8.92%	8.89%
Total	100.00%	100.00%
Total Loans		
Acceptable	98.61%	98.55%
OAEM	0.48%	0.50%
Substandard	0.91%	0.95%
Total	100.00%	100.00%

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

(dollars in thousands)	March 31, 2014	December 31, 2013
Nonaccrual loans		
Real estate mortgage	\$ 100	\$ 107
Total nonaccrual loans	100	107
Accruing restructured loans		
Real estate mortgage	51	63
Total accruing restructured loans	51	63
Total impaired loans	151	170
Total high risk assets	\$ 151	\$ 170

The Association had no accruing loans 90 days past due or other property owned for the periods presented.

Additional impaired loan information is as follows:

As of:	March 31, 2014	December 31, 2013
Impaired loan volume with related allowance for credit losses	\$ —	\$ —
Impaired loan volume without related allowance for credit losses	151	170
Total impaired loans	\$ 151	\$ 170
Total specific allowance for credit losses	\$ —	\$ —

	For the Three Months Ended March 31	
	2014	2013
Interest income on accrual impaired loans	\$ —	\$ —
Interest income on nonaccrual impaired loans	—	—
Total interest income on risk loans	\$ —	\$ —
Average recorded investment	\$ 161	\$ 491

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

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
March 31, 2014						
Real estate mortgage	\$ 52	\$ —	\$ 52	\$ 97,771	\$ 97,823	\$ —
Production and intermediate-term	—	—	—	15,003	15,003	—
Agribusiness	—	—	—	6,703	6,703	—
Communication	—	—	—	2,996	2,996	—
Energy	—	—	—	959	959	—
Rural residential real estate	—	—	—	2,119	2,119	—
Total	\$ 52	\$ —	\$ 52	\$ 125,551	\$ 125,603	\$ —
December 31, 2013						
Real estate mortgage	\$ 227	\$ —	\$ 227	\$ 98,430	\$ 98,657	\$ —
Production and intermediate-term	—	—	—	12,810	12,810	—
Agribusiness	—	—	—	6,575	6,575	—
Communication	—	—	—	2,999	2,999	—
Energy	—	—	—	963	963	—
Rural residential real estate	—	—	—	2,161	2,161	—
Total	\$ 227	\$ —	\$ 227	\$ 123,938	\$ 124,165	\$ —

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

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2014
Real estate mortgage	\$ 109	\$ —	\$ —	\$ 4	\$ 113
Production and intermediate-term	39	—	—	(2)	37
Agribusiness	47	—	—	(5)	42
Communication	2	—	—	—	2
Energy	2	—	—	—	2
Rural residential real estate	2	—	—	—	2
Total	\$ 201	\$ —	\$ —	\$ (3)	\$ 198

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2013
Real estate mortgage	\$ 115	\$ —	\$ —	\$ (1)	\$ 114
Production and intermediate-term	42	—	—	1	43
Agribusiness	50	—	—	(7)	43
Communication	1	—	—	—	1
Energy	—	—	—	2	2
Rural residential real estate	1	—	—	—	1
Total	\$ 209	\$ —	\$ —	\$ (5)	\$ 204

	Allowance for Credit Losses Ending Balance at March 31, 2014		Recorded Investments in Loans Outstanding Ending Balance at March 31, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ —	\$ 113	\$ 151	\$ 97,672
Production and intermediate-term	—	37	—	15,003
Agribusiness	—	42	—	6,703
Communication	—	2	—	2,996
Energy	—	2	—	959
Rural residential real estate	—	2	—	2,119
Total	\$ —	\$ 198	\$ 151	\$ 125,452

	Allowance for Credit Losses Ending Balance at December 31, 2013		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2013	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ —	\$ 109	\$ 170	\$ 98,487
Production and intermediate-term	—	39	—	12,810
Agribusiness	—	47	—	6,575
Communication	—	2	—	2,999
Energy	—	2	—	963
Rural residential real estate	—	2	—	2,161
Total	\$ —	\$ 201	\$ 170	\$ 123,995

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no TDRs during the three months ended March 31, 2014. The Association had no TDRs within the previous 12 months for which there were payment defaults during the period.

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

	Loans modified as TDRs March 31, 2014	December 31, 2013	TDRs in Nonaccrual Status* March 31, 2014	December 31, 2013
Real estate mortgage	\$ 151	\$ 170	\$ 100	\$ 107
Total	\$ 151	\$ 170	\$ 100	\$ 107

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

NOTE 3 - CAPITAL

In the first quarter of 2014, a borrower cash patronage in the amount of \$487 was declared and paid for the real estate mortgage loan customers. The patronage resolution stated that the patronage was to be paid prior to March 31, 2014.

The following tables present the activity in the accumulated other comprehensive loss, net of tax by component:

	Quarter Ended March 31	
	2014	2013
Pension and other benefit plans:		
Beginning balance	\$ (38)	\$ (14)
Other comprehensive income before reclassifications	—	—
Amounts reclassified from accumulated other comprehensive loss	3	3
Net current period other comprehensive income	3	3
Ending balance at March 31	\$ (35)	\$ (11)

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2013 Annual Report to Shareholders for a more complete description.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
March 31, 2014	\$ 32	\$ —	\$ —	\$ 32
December 31, 2013	\$ 27	\$ —	\$ —	\$ 27

During the first three months of 2014, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at March 31, 2014 or December 31, 2013.

The Association had no assets or liabilities measured at fair value on a non-recurring basis at March 31, 2014 or December 31, 2013.

Valuation Techniques

As more fully discussed in Note 2 to the 2013 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Assets Held in Non-Qualified Benefits Trusts

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

NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 5, 2014, which is the date the financial statements were issued, and no material subsequent events were identified.

FARM CREDIT OF CENTRAL OKLAHOMA, ACA

BOARD OF DIRECTORS

Bobby Tarp, Chairman	Lexington
Alan Schenk	Chickasha
Ricky Carothers	Indiahoma
Steve Calhoun	Ninnekah
David Dolch	Anadarko

OFFICERS AND EMPLOYEES

Blake Byrd	President
Michael C. Prochaska	Sr. Vice President – Finance
Russell B. Strecker	Vice President- Credit
Arnold H. Johnson	Vice President
Erral Myers	Vice President
Clint Janda	Assistant Vice President
Sandy Jones	Assistant Vice President
Recia Orme	Accountant
Sarah Reynolds	Loan Accountant
Carol Jones	Office Assistant
Jaimie Allen	Office Assistant