2014

ANNUAL REPORT

FARM CREDIT OF WESTERN OKLAHOMA, ACA

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2014	2013	2012	2011	2010
Statement of Condition Data					
Loans	**$ 671,351**	$ 467,874	$ 453,297	$ 381,888	$ 392,591
Less allowance for loan losses	**2,249**	2,247	2,162	2,149	2,056
Net loans	**669,102**	465,627	451,135	379,739	390,535
Investment in CoBank, ACB	**19,653**	15,278	13,999	NA	NA
Investment in U.S. AgBank, FCB	**NA**	NA	NA	13,215	10,825
Other assets	**18,664**	14,878	16,099	12,486	11,361
Total assets	**$ 707,419**	$ 495,783	$ 481,233	$ 405,440	$ 412,721
Obligations with maturities of one year or less	**$ 10,915**	$ 9,600	$ 7,170	$ 10,541	$ 5,860
Obligations with maturities longer than one year	**568,406**	397,005	389,945	315,791	335,585
Total liabilities	**579,321**	406,605	397,115	326,332	341,445
Protected borrower stock	**-**	-	-	3	5
Capital stock	**1,966**	1,340	1,377	1,383	1,396
Additional paid-in capital	**33,619**	-	-	-	-
Unallocated retained earnings	**92,535**	87,838	82,741	77,722	69,875
Accumulated other comprehensive (loss)/income	**(22)**	-	-	-	-
Total shareholders' equity	**128,098**	89,178	84,118	79,108	71,276
Total liabilities and shareholders' equity	**$ 707,419**	$ 495,783	$ 481,233	$ 405,440	$ 412,721

	For the Year Ended December 31				
	2014	2013	2012	2011	2010
Statement of Income Data					
Net interest income	**$ 14,095**	$ 12,417	$ 11,173	$ 10,389	$ 10,103
Patronage distribution from Farm Credit institutions	**2,113**	1,877	1,689	3,669	527
Tax-free recapitalization distribution due to AgBank merger	**-**	-	-	2,390	-
Provision for loan losses	**8**	96	89	67	405
Noninterest expense, net	**9,302**	7,600	6,503	7,029	5,626
Provision for income taxes	**1**	1	1	5	2
Net income	**$ 6,897**	$ 6,597	$ 6,269	$ 9,347	$ 4,597
Comprehensive income	**$ 6,875**	$ 6,597	$ 6,269	$ 9,347	$ 4,597
Key Financial Ratios					
For the Year					
Return on average assets	**1.29%**	1.38%	1.43%	2.36%	1.20%
Return on average shareholders' equity	**6.83%**	7.58%	7.65%	12.53%	6.52%
Net interest income as a percentage of average earning assets	**2.78%**	2.74%	2.70%	2.77%	2.79%
Net charge-offs/(recoveries) as a percentage of average net loans	**<0.01%**	<0.01%	0.02%	(0.01%)	0.10%
At Year End					
Shareholders' equity as a percentage of total assets	**18.11%**	17.99%	17.48%	19.51%	17.27%
Debt as a ratio to shareholders' equity	**4.52:1**	4.56:1	4.72:1	4.13:1	4.79:1
Allowance for loan losses as a percentage of loans	**0.33%**	0.48%	0.48%	0.56%	0.52%
Permanent capital ratio	**17.41%**	16.52%	15.44%	16.58%	16.16%
Total surplus ratio	**17.10%**	16.22%	15.14%	16.23%	15.80%
Core surplus ratio	**17.10%**	16.22%	14.98%	16.03%	15.62%
Net Income Distribution					
Cash patronage distributions paid	**$ 1,500**	$ 1,250	$ 1,500	$ 1,400	$ 1,000
Cash patronage declared	**$ 2,200**	$ 1,500	$ 1,250	$ 1,500	$ 1,400
Other					
Loans serviced for U.S. AgBank, FCB	**NA**	NA	NA	$ -	$ 71

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the year ended December 31, 2014. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying 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:

- 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

Merger with Farm Credit of Central Oklahoma, ACA

In January 2014, the boards of directors of Farm Credit of Central Oklahoma, ACA (Central Oklahoma) and Farm Credit of Western Oklahoma, ACA (Western Oklahoma) approved a Letter of Intent to pursue a merger. In June 2014, a merger application was submitted to the Farm Credit Administration (FCA), the Farm Credit System regulator. On June 26, 2014, The FCA granted preliminary approval of the merger, subject to certain conditions. On August 14, 2014, Central Oklahoma and Western Oklahoma announced that their voting shareholders overwhelmingly approved the proposed plan of merger between the two associations. Final approval from FCA was received on September 24, 2014. The merger was effective October 1, 2014. The merger successfully united two outstanding organizations that created a company of greater capital, capacity, and human resources to serve agriculture in Oklahoma. The merged association continues to conduct business as Farm Credit of Western Oklahoma, ACA with headquarters located in Woodward, Oklahoma. John Grunewald is the President and Chief Executive Officer of the continuing association. For purposes of this management discussion and analysis, unless otherwise noted, references to "the Association" represents Farm Credit of Western Oklahoma, ACA, from a current, historic and future perspective.

Beginning October 1, 2014, our financial position, results of operations, cash flows and related metrics include the effects of the merger with Central Oklahoma. Prior year results have not been restated to reflect the impact of the merger. Upon the closing of the merger, loans increased by $125.0 million, assets increased by $131.7 million, liabilities increased by $97.4 million and shareholder's equity increased by $34.2 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

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.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2014, we are one of 77 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. 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 life insurance, advance conditional payment accounts and provide additional services to borrowers such as 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. Our Services Agreement with AgVantis expired on December 31, 2014. Upon expiration, a new services agreement was effective which expires on December 31, 2016. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

For several years, agriculture in our area has experienced a prolonged period of favorable economic conditions due to strong prices for cattle and other commodities, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Equally, a robust oil and gas industry has driven a fundamentally strong Oklahoma economy. Because of these complimentary conditions, our business results have been positively affected. However, these cyclical industries are acutely affected by commodity prices and global economic influences. Also related is the persistent drought in most of our territory that has adversely impacted agriculture production. Higher than average commodity prices and periodic rainfall have generally mitigated the short-term impact of the drought for many of our producers. In addition, the unfavorable impact to us from lower productivity is somewhat diluted by the geographic and commodity diversification of our territory. Our service territory extends across a diverse region of Oklahoma. The service area includes the central, south central, western, and northwest, including the panhandle of Oklahoma. The central region is significantly influenced by Oklahoma City, Norman and Lawton which are three of the larger metropolitan areas in the state. Our remaining territory, covering a substantial part of western and northwestern Oklahoma, is fueled by diverse agriculture and healthy business conditions related to the Oklahoma economy.

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This Farm Bill will govern an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The Farm Bill eliminates $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

During 2014, economic conditions in our region were generally positive due to an especially strong cattle market, equitable commodity prices, and mostly adequate yields. The strong and active energy industry discussed earlier also played a major role in 2014 economic environment. The Livestock Assistance Program in the new Farm Bill provided a notable financial enhancement to our livestock producers from current and previous year loss related to the drought. In very late 2014, the energy sector began showing signs of a decline due to lower oil and gas prices. Any unfavorable impact of weakened production has yet to materialize. The duration of the slowdown will be the greatest dynamic in determining the influence to our region. Lower grain prices, increased volatility in the cattle market and the ongoing drought are other areas that could have adverse effects in our territory. Although these conditions warrant attention, the strong economics of the recent past have augmented the financial condition of most of our customers and should mitigate the downside risks over the near term.

LOAN PORTFOLIO

Total loans outstanding were $671.4 million at December 31, 2014, an increase of $203.5 million, or 43.5%, from loans at December 31, 2013 of $467.9 million, and an increase of $218.1 million, or 48.1%, from loans at December 31, 2012 of $453.3 million. The increase in loans was due to largely to the merger with Central Oklahoma effective October 1, 2014, however the Association grew 11.59% in 2014 excluding the growth from the merger, due to customer demand, increased input cost, cost of livestock, marketing efforts and real estate market. The types of loans outstanding at December 31 are reflected in the following table.

	2014		2013		2012	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$ 426,293**	**63.6%**	$ 305,289	65.3%	$ 300,101	66.2%
Production and intermediate-term loans	**230,334**	**34.3%**	152,740	32.6%	137,879	30.4%
Agribusiness loans to:						
Cooperatives	**2,998**	**0.4%**	4,622	1.0%	8,345	1.8%
Processing and marketing	**4,945**	**0.7%**	2,813	0.6%	4,356	1.0%
Farm related business	**1,271**	**0.2%**	646	0.1%	1,022	0.2%
Communication	**1,830**	**0.3%**	–	–	–	–
Energy	**858**	**0.1%**	–	–	–	–
Rural residential real estate loans	**2,822**	**0.4%**	1,764	0.4%	1,594	0.4%
Total	**$ 671,351**	**100.0%**	$ 467,874	100.0%	$ 453,297	100.0%

Real estate mortgage loans outstanding increased to $426.3 million, compared with $305.3 million at year-end 2013, primarily due to the merger along with increased land values and demand for loans. 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. In 2014, the average new mortgage loan to appraised value was 56%, and the average loan to appraised value in the mortgage portfolio was less than 50%. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 50.8% to $230.3 million compared with 2013 loans of $152.7 million, primarily due to the merger along with increased input costs and demand for operating loans. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Increases were also noted in agribusiness, communication and energy loan volume, where the majority of loan volume was due to loan participations. Additionally, at December 31, 2014, approximately 84% of agribusiness, and 100% of communication and energy volume were a result of loan participations.

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)	**2014**	2013	2012
Participations purchased	**$ 70,721**	$ 59,406	$ 58,695
Participations sold	**$ 17,382**	$ 15,231	$ 14,364

Unaudited

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

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

	2014	2013	2012
Beaver	**2.63%**	2.88%	2.35%
Beckham	**1.55%**	2.18%	2.38%
Caddo*	**8.59%**	–	–
Cimarron	**2.81%**	3.04%	3.25%
Cleveland*	**1.19%**	–	–
Comanche*	**2.32%**	–	–
Custer	**5.55%**	7.24%	7.30%
Dewey	**4.24%**	4.74%	4.47%
Ellis	**3.51%**	3.85%	4.16%
Grady*	**3.65%**	–	–
Harper	**4.22%**	5.17%	5.31%
McClain*	**1.78%**	–	–
Roger Mills	**2.34%**	2.82%	2.77%
Texas	**8.45%**	9.88%	10.36%
Washita	**4.77%**	5.69%	5.19%
Woods	**5.37%**	6.71%	5.96%
Woodward	**6.97%**	9.01%	7.95%
Other – Oklahoma	**8.35%**	11.10%	11.26%
Other – Oklahoma Participations	**3.84%**	5.34%	5.05%
Other – Kansas	**6.22%**	7.91%	8.98%
Other – Kansas Participations	**4.36%**	6.43%	6.42%
Other – Texas	**4.83%**	4.40%	4.97%
Other	**2.46%**	1.61%	1.87%
Total	**100.00%**	100.00%	100.00%

***** Denotes counties obtained in the merger.

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

SIC Category	December 31 **2014**	2013	2012
Beef	**58.92%**	60.15%	61.62%
Cash grain/Corn/Sorghum	**14.03%**	13.19%	13.85%
Wheat	**11.31%**	13.26%	12.13%
Landlords	**5.18%**	2.36%	1.38%
Peanuts/Cotton/Peppers/Watermelon	**2.36%**	1.81%	2.13%
Dairy	**1.95%**	1.98%	1.05%
Hay	**1.89%**	1.48%	1.21%
Ag Services	**1.18%**	1.55%	2.09%
Hogs	**0.53%**	0.67%	0.94%
Harvesting	**0.46%**	0.63%	0.11%
Nursery	**0.25%**	0.15%	0.22%
Poultry	–	–	0.06%
Other	**1.94%**	2.77%	3.21%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of cattle, wheat and various other grain producers. These commodities will most likely remain our largest concentrations as these are the primary agricultural industries in our area. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our loan volume at December 31, 2014, approximately 49% consists of borrowers with income not solely from agricultural sources, a decrease from 53% for 2013 and 2012.

The principal balance outstanding at December 31, 2014 for loans $250 thousand or less accounted for 33.26% of loan volume and 83.60% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loan principal by dollar size at December 31.

	2014		2013		2012	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 223,321**	**2,876**	$ 148,979	2,019	$ 147,584	2,087
$251 - $500	**102,386**	**296**	63,603	186	56,366	163
$501 - $1,000	**114,477**	**158**	76,450	108	70,198	98
$1,001 - $5,000	**217,657**	**108**	166,685	83	166,493	83
$5,001 - $25,000	**13,510**	**2**	12,157	2	12,656	2
Total	**$ 671,351**	**3,440**	$ 467,874	2,398	$ 453,297	2,433

Approximately 25% of our loans outstanding is attributable to 20 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 $23.6 million at year-end 2014, $19.5 million at year-end 2013 and $20.1 million at year-end 2012 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2014.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 64,169	$ 63,731	$ 665	$ 1,592	$ 130,157
Standby letters of credit	21	89	96	–	206
Commercial letters of credit	219	–	–	–	219
Total commitments	$ 64,409	$ 63,820	$ 761	$ 1,592	$ 130,582

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

High Risk Assets

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

(dollars in thousands)	**2014**	2013	2012
Nonaccrual loans:			
Real estate mortgage	**$ 84**	$ –	$ 171
Production and intermediate-term	**–**	–	37
Total nonaccrual loans	**84**	–	208
Accruing restructured loans:			
Real estate mortgage	**51**	–	–
Total high risk assets	**$ 135**	$ –	$ 208
Nonaccrual loans to total loans	**0.01%**	–	0.05%
Impaired loans to total loans	**0.02%**	–	–
High risk assets to total loans	**0.02%**	–	0.05%
High risk assets to total shareholders' equity	**0.11%**	–	0.25%

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

Total high risk assets increased $135 thousand, or 100.00%, to $135 thousand at December 31, 2014 compared with year-end 2013. These high risk assets were acquired through the merger with Central Oklahoma effective October 1, 2014.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $84 thousand compared with December 31, 2013. One customer comprises 100% of total nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31.

(dollars in thousands)	**2014**	2013	2012
Nonaccrual current as to principal and interest	**$ 84**	$ –	$ 171
Restructured loans in nonaccrual status	**$ 84**	$ –	$ –

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

Accruing restructured loans including related accrued interest increased $51 thousand during 2014 as a result of loans acquired in the merger with Central Oklahoma. 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.

High risk asset volume is anticipated to increase in the future. The expectation of increased high risk asset volume is entirely attributed to the current historically low level of these assets.

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.

	2014	2013	2012
Acceptable	**99.22%**	98.42%	97.90%
OAEM	**0.63%**	0.92%	1.77%
Substandard	**0.15%**	0.66%	0.33%
Total	**100.00%**	100.00%	100.00%

During 2014, overall credit quality improved. Loans classified as Acceptable and OAEM were 99.85% at December 31, 2014, 99.34% at December 31, 2013 and 99.67% at December 31, 2012. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.02% at December 31, 2014, compared with 0.04% at December 31, 2013 and 0.05% at December 31, 2012.

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.

(dollars in thousands)	**2014**	2013	2012
Balance at beginning of year	**$ 2,247**	$ 2,162	$ 2,149
Charge-offs:			
Real estate mortgage	**–**	–	41
Production and intermediate-term	**21**	66	116
Total charge-offs	**21**	66	157
Recoveries:			
Real estate mortgage	**–**	–	41
Production and intermediate-term	**15**	55	40
Total recoveries	**15**	55	81
Net charge-offs	**6**	11	76
Provision for loan losses	**8**	96	89
Balance at December 31	**$ 2,249**	$ 2,247	$ 2,162
Net charge-offs/(recoveries) 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.

(dollars in thousands)	**2014**	2013	2012
Real estate mortgage	**$ 167**	$ 167	$ 182
Production and intermediate-term	**1,994**	2,026	1,908
Agribusiness	**84**	52	70
Communication	**1**	–	–
Energy	**2**	–	–
Rural residential real estate	**1**	2	2
Total	**$ 2,249**	$ 2,247	$ 2,162

The allowance for loan losses increased $2 thousand from December 31, 2013, to $2.2 million at December 31, 2014. The increase in allowance for loan losses was primarily due to the provision for loan losses totaling $8 thousand that was recorded due to the increase in loan volume. Net charge-offs of $6 thousand were recorded during 2014. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2013, our allowance for loan losses increased $85 thousand from 2012 primarily due to increased overall loan volume. 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.

	2014	2013	2012
Allowance as a percentage of:			
Loans	**0.33%**	0.48%	0.48%
Impaired loans	**1,665.93%**	–	1,039.42%
Nonaccrual loans	**2,677.38%**	–	1,039.42%

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. Our mission statement is to develop business relationships with young, beginning and small farmers and ranchers who exhibit the management skills necessary to build a solid financial position, have viable operations, contribute to the agricultural community and become 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 2012 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	**2014**	2013	2012
Young	11.48%	**21.19%**	20.60%	20.32%
Beginning	25.23%	**27.27%**	22.10%	19.84%
Small	92.93%	**62.33%**	68.28%	62.51%

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

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

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

In conjunction with our YBS goals, in 2014 we held three meetings with the YBS Advisory Committee from Guymon and took this group to Washington D.C. to meet with USDA, Oklahoma Senators and Congressmen, National Cattlemen's Beef Association, Farm Bureau and FCA; and met once with the YBS Advisory Committee from Anadarko. We continued YBS outreach programs including the Take-One-Off Program, whereby interest rates are reduced by one percent for individuals under 35, for up to 3 years. We continued to offer and obtain FSA guarantees, continued to support area 4-H and FFA programs through donations and sponsorships and continued to provide college scholarships.

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

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

	New Lending		**Total Portfolio**	
(dollars in thousands)	**Goal**	**Actual**	**Goal**	**Actual**
Young	$ 15,000	$ 39,594	$ 80,000	$ 112,242
Beginning	$ 20,000	$ 26,847	$ 100,000	$ 135,180
Small	$ 25,000	$ 44,462	$ 165,000	$ 258,920

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

CREDIT RISK MANAGEMENT

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

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an individual lending limit maximum of 10% of permanent capital for our highest quality borrowers.

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

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

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

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2014, we recorded net income of $6.9 million, compared with $6.6 million in 2013, and $6.3 million in 2012. The increase in net income for both 2014 and 2013 was primarily due to increase in volume and an increase in average spread. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2014 vs. 2013**	2013 vs. 2012
Net income, prior year	**$ 6,597**	$ 6,269
Increase/(Decrease) from changes in:		
Interest income	**2,382**	935
Interest expense	**(704)**	309
Net interest income	**1,678**	1,244
Provision for loan losses	**88**	(7)
Noninterest income	**384**	(142)
Noninterest expense	**(1,850)**	(767)
Total increase in net income	**300**	328
Net income, current year	**$ 6,897**	$ 6,597

Return on average assets decreased to 1.29% from 1.38% in 2013, and return on average shareholders' equity decreased to 6.83% from 7.58% in 2013, primarily as a result of increased average assets, average equity, and expenses in connection with the merger.

Net Interest Income

Net interest income for 2014 was $14.1 million compared with $12.4 million for 2013 and $11.2 million for 2012. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased loan volume and spread. The following table provides an analysis of the individual components of the change in net interest income during 2014 and 2013.

(dollars in thousands)	**2014 vs. 2013**	2013 vs. 2012
Net interest income, prior year	**$ 12,417**	$ 11,173
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**66**	(717)
Interest rates paid	**77**	962
Volume of interest-bearing assets and liabilities	**1,535**	1,066
Interest income on nonaccrual loans	**–**	(67)
Increase in net interest income	**1,678**	1,244
Net interest income, current year	**$ 14,095**	$ 12,417

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		
	2014	2013	2012
Net interest margin	**2.78%**	2.74%	2.70%
Interest rate on:			
Average loan volume	**4.36%**	4.35%	4.53%
Average debt	**1.85%**	1.87%	2.14%
Interest rate spread	**2.51%**	2.48%	2.39%

The increase in interest rate spread resulted from a 1 basis point increase in interest rates on average loan volume and a 2 basis point decrease in interest rates on average debt. The increase in net interest margin in addition to the change in spread was due to higher earnings on our own capital.

Provision for Loan Losses

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. We recorded net provision for loan losses of $8 thousand in 2014, compared with $96 thousand in 2013 and $89 thousand in 2012. The provision for loan losses recorded during 2014 was primarily due to an increase in volume in our loan portfolio. The provision for loan losses recorded in 2013 and 2012 were primarily due to increased loan volume and increased risk exposure on certain loans.

Noninterest Income

During 2014, we recorded noninterest income of $3.0 million, compared with $2.6 million in 2013 and $2.7 million in 2012. Patronage distributions from CoBank are our primary source of noninterest income. Beginning in 2012, patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash. Patronage earned from CoBank was $1.9 million in 2014, $1.7 million in 2013 and $1.6 million in 2012.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2014. We received a Notice of Allocation with our total patronage of $210 thousand, which includes cash patronage of $42 thousand compared with $31 thousand for 2013 and $24 thousand for 2012. The balance of the allocation is recorded in other assets. Additionally, we received a cash patronage of $5 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. This compares with $5 thousand recorded in 2013 and 2012. Patronage from these two entities and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

Mineral income of $714 thousand was recognized during 2014. Of this amount, quarterly payments totaling $707 thousand were received from CoBank.

During 2012, we received a distribution of $377 thousand from Farm Credit System Insurance Corporation (FCSIC) representing our allocated portion of the excess amount in the System's insurance fund above the 2.0% secure base amount. No such distribution was received in 2014 or 2013.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees remained the same in 2014 at $26 thousand, and financially related service income decreased to $21 thousand from $26 thousand in 2013 due to fewer policies sold.

Noninterest Expense

Noninterest expense for 2014 increased $1.9 million, or 22.3%, to $10.2 million compared with 2013 and $2.6 million, or 34.7% compared with 2012. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2014**	2013	2012	**2014/2013**	2013/2012
Salaries & employee benefits	**$ 5,673**	$ 4,743	$ 4,040	**19.61%**	17.40%
Occupancy & equipment	**462**	363	334	**27.27%**	8.68%
Purchased services from AgVantis	**827**	703	696	**17.64%**	1.01%
Supervisory & examination costs	**175**	153	153	**14.38%**	–
Merger implementation costs	**191**	–	–	**100.00%**	–
Other	**2,382**	2,005	2,163	**18.80%**	(7.30%)
Total operating expense	**9,710**	7,967	7,386	**21.88%**	7.87%
Farm Credit Insurance Fund premium	**453**	346	160	**30.92%**	116.25%
Total noninterest expense	**$ 10,163**	$ 8,313	$ 7,546	**22.25%**	10.16%

For the year ended December 31, 2014, total operating expense increased $1.7 million, or 21.9%, compared with the year ended December 31, 2013, primarily due to the merger along with accrued bonuses and incentives to be paid in 2015 based on 2014 performance. In 2013 the increase in salary and benefits is primarily due to additional pension funding and pension plan expenses, additional staff and incentives. The Insurance Fund premium increased $107 thousand to $453 thousand due to an increase in the premium rate and an increase in volume. Premium rates were 12 basis points during 2014 compared with 10 basis points in 2013 and 5 basis points in 2012.

Merger-implementation costs of $191 thousand were recorded for attorney fees, accountant fees, and printing and mailing expenses related to disclosures.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow and maximize debt reduction. Our direct loan with CoBank, cash on hand and 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 May 31, 2018. The annual average principal balance of the note payable to CoBank was $421.6 million in 2014, $382.0 million in 2013 and $347.4 million in 2012.

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

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2014 totaled $128.1 million, compared with $89.2 million at December 31, 2013 and $84.1 million at December 31, 2012. The increase of $38.9 in shareholders' equity reflects the $33.6 million capital acquired in connection with the merger with Central Oklahoma, 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.

	2014	2013	2012
Debt to shareholders' equity	**4.52:1**	4.56:1	4.72:1
Shareholders' equity as a percent of net loans	**19.15%**	19.15%	18.65%
Shareholders' equity as a percent of total assets	**18.11%**	17.99%	17.48%

Debt to shareholders' equity decreased and shareholders' equity as a percent of net loans remained constant while shareholders' equity as a percent of total assets increased from 2013 primarily due to a favorable trend in capital resources.

Retained Earnings

Our retained earnings increased $4.7 million to $92.5 million at December 31, 2014 from $87.8 million at December 31, 2013 and increased $9.8 million from $82.7 million at December 31, 2012. The increase from 2013 was a result of net income of $6.9 million, partially offset by $2.2 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 $1.5 million in 2014, $1.3 million in 2013 and $1.5 million in 2012. During 2014, we declared patronage distributions of $2.2 million to be paid in April, 2015.

Stock

Our total stock increased $626 thousand to $2.0 million at December 31, 2014, from $1.3 million at December 31, 2013 and increased from $1.4 million at December 31, 2012. The increase was due to $608 thousand of stock issued in connection with the merger and other stock issuances of $163 thousand, partially offset by stock retirements of $145 thousand. 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 $22 at December 31, 2014, an increase of $22 thousand compared with year-end 2013 and year-end 2012. 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 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.

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

	Regulatory Minimum	**2014**	2013	2012
Permanent capital ratio	7.00%	**17.41%**	16.52%	15.44%
Total surplus ratio	7.00%	**17.10%**	16.22%	15.14%
Core surplus ratio	3.50%	**17.10%**	16.22%	14.98%

As of December 31, 2014, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2015. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2014, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

Building Projects

A new branch building has been proposed but not finalized. Those expenses would most likely occur in 2016.

REGULATORY MATTERS

As of December 31, 2014, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

On May 8, 2014, the Farm Credit Administration approved a proposed rule to modify the regulatory capital requirements for System Associations. The stated objectives of the proposed rule are as follows.

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as government-sponsored enterprises;
- To ensure that the Systems' capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;
- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Act.

As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity tier 1, tier 1 and total capital (tier 1 + tier 2) risk-based capital ratio requirements. The proposal would add a minimum tier 1 leverage ratio for all System institutions. In addition, the proposal would establish a capital conservation buffer, and modify and expand risk weightings. The revisions to the risk weightings of exposures would include alternatives to the use of credit ratings, as required by the Dodd-Frank Act. The proposed effective date is January 1, 2016.

The public comment period ended on February 16, 2015. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

GOVERNANCE

Board of Directors

We are governed by a 14 member board that provides direction and oversees our management. Of these directors, 12 are elected by the shareholders and 2 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 5 members of the Board of Directors. During 2014, four meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

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

Risk Committee

The Risk Committee is responsible for the oversight of credit risk, including portfolio management reports, risk assessment reports and stress reports to assess the conditions that may materially impact the loan portfolio. The Risk Committee consists of 5 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 5 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 Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses

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

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

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

CUSTOMER PRIVACY

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

Farm Credit
OF WESTERN OKLAHOMA

Our roots run deep.

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Elk City, OK 73644
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GUYMON
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WOODWARD
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REPORT OF MANAGEMENT

The consolidated financial statements of Farm Credit of Western Oklahoma, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The 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 2014 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, CoBank, ACB's Internal Audit staff performed audits of the accounting records, reviewed accounting systems and internal controls, and recommended improvements as appropriate. The 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.

Ronald W. White
Ronald W. White,
Chairman of the Board

John Grunewald
John Grunewald,
President and Chief Executive Officer

Jamie Shirkey
Jamie Shirkey
Chief Financial Officer

March 16, 2015

Farm Credit
OF WESTERN OKLAHOMA

Our roots run deep.

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219 Oklahoma Blvd.
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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes 5 members from the Board of Directors of Farm Credit of Western Oklahoma, (Association). In 2014, 4 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 2014.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2014 were $23,800 for audit services, $14,400 for tax services and $15,600 for merger advice.

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, 2014 (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, 2014 and for filing with the Farm Credit Association.

LaVern W. Phillips

LaVern W. Phillips, Chairman of the Audit Committee

Audit Committee Members
Ricky Carothers
Jimmie Musick
Jimmie Purvine
Alan Schenk

March 16, 2015

Independent Auditor's Report

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 statement of condition as of December 31, 2014, 2013 and 2012, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit of Western Oklahoma, ACA, and its subsidiaries at December 31, 2014, 2013 and 2012, 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

March 16, 2015

PricewaterhouseCoopers LLP, 1100 Walnut, Suite 1300, Kansas City, MO 64106
T: (816) 472 7921, F: (816) 218 1890, www.pwc.com/us

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2014	2013	2012
ASSETS			
Loans	**$ 671,351**	$ 467,874	$ 453,297
Less allowance for loan losses	**2,249**	2,247	2,162
Net loans	**669,102**	465,627	451,135
Cash	**5,332**	4,399	6,247
Accrued interest receivable	**7,720**	6,109	5,707
Investment in CoBank, ACB	**19,653**	15,278	13,999
Premises and equipment, net	**1,797**	1,639	1,692
Prepaid benefit expense	**580**	439	510
Other assets	**3,235**	2,292	1,943
Total assets	**$ 707,419**	$ 495,783	$ 481,233
LIABILITIES			
Note payable to CoBank, ACB	**$ 566,065**	$ 394,198	$ 387,008
Advance conditional payments	**6,253**	7,211	5,248
Accrued interest payable	**2,341**	2,807	2,937
Patronage distributions payable	**2,200**	1,500	1,250
Accrued benefits liability	**220**	100	110
Other liabilities	**2,242**	789	562
Total liabilities	**579,321**	406,605	397,115
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	**1,966**	1,340	1,377
Additional paid-in capital	**33,619**	-	-
Unallocated retained earnings	**92,535**	87,838	82,741
Accumulated other comprehensive (loss)/income	**(22)**	-	-
Total shareholders' equity	**128,098**	89,178	84,118
Total liabilities and shareholders' equity	**$ 707,419**	$ 495,783	$ 481,233

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		
	2014	2013	2012
INTEREST INCOME			
Loans	**$ 22,075**	$ 19,693	$ 18,758
Total interest income	**22,075**	19,693	18,758
INTEREST EXPENSE			
Note payable to CoBank, ACB	**7,896**	7,203	7,507
Other	**84**	73	78
Total interest expense	**7,980**	7,276	7,585
Net interest income	**14,095**	12,417	11,173
Provision for loan losses	**8**	96	89
Net interest income after provision for loan losses	**14,087**	12,321	11,084
NONINTEREST INCOME			
Financially related services income	**21**	26	32
Loan fees	**26**	26	60
Patronage distribution from Farm Credit institutions	**2,113**	1,877	1,689
Farm Credit Insurance Fund distribution	**-**	-	377
Mineral income	**714**	597	512
Other noninterest income	**100**	64	62
Total noninterest income	**2,974**	2,590	2,732
NONINTEREST EXPENSE			
Salaries and employee benefits	**5,673**	4,743	4,040
Occupancy and equipment	**462**	363	334
Purchased services from AgVantis, Inc.	**827**	703	696
Farm Credit Insurance Fund premium	**453**	346	160
Merger-implementation costs	**191**	-	-
Supervisory and examination costs	**175**	153	153
Other noninterest expense	**2,382**	2,005	2,163
Total noninterest expense	**10,163**	8,313	7,546
Income before income taxes	**6,898**	6,598	6,270
Provision for income taxes	**1**	1	1
Net income	**6,897**	6,597	6,269
COMPREHENSIVE INCOME			
Actuarial loss in retirement obligation	**(22)**	-	-
Total comprehensive income	**$ 6,875**	$ 6,597	$ 6,269

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2011	$ 3	$ 1,383	$ -	$ 77,722	$ -	$ 79,108
Net income/Comprehensive income				6,269		6,269
Stock issued	-	176				176
Stock retired	(3)	(182)				(185)
Patronage distributions: Cash				(1,250)		(1,250)
Balance at December 31, 2012	-	1,377	-	82,741	-	84,118
Net income/Comprehensive income				6,597		6,597
Stock issued	-	108				108
Stock retired	-	(145)				(145)
Patronage distributions: Cash				(1,500)		(1,500)
Balance at December 31, 2013	-	1,340	-	87,838	-	89,178
Net income/Comprehensive income				6,897	(22)	6,875
Stock issued	-	163				163
Stock retired	-	(145)				(145)
Equity issued in connection with merger		608	33,619			34,227
Patronage distributions: Cash				(2,200)		(2,200)
Balance at December 31, 2014	**$ -**	**$ 1,966**	**$ 33,619**	**$ 92,535**	**$ (22)**	**$ 128,098**

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		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income/Comprehensive income	**$ 6,897**	$ 6,597	$ 6,269
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**307**	284	262
Provision for loan losses	**8**	96	89
Allocated patronage from AgVantis	**(270)**	(122)	(97)
Gains on sales of premises and equipment	**(22)**	(27)	(25)
Net accretion of yield related to loans and notes payable acquired in merger	**(72)**	-	-
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	**210**	(402)	(593)
(Increase)/Decrease in prepaid benefit expense	**(60)**	71	11
(Increase)/Decrease in other assets	**(123)**	(227)	143
Decrease in accrued interest payable	**(1,175)**	(130)	(21)
Decrease in accrued benefits liability	**(10)**	(10)	(16)
Increase in other liabilities	**791**	227	12
Total adjustments	**(416)**	(240)	(235)
Net cash provided by operating activities	**6,481**	6,357	6,034
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(78,293)**	(14,588)	(71,485)
Net cash acquired in business combination	**78**	-	-
Increase in investment in CoBank/AgBank	**(670)**	(1,279)	(784)
Expenditures for premises and equipment, net	**(131)**	(204)	(180)
Net cash used in investing activities	**(79,016)**	(16,071)	(72,449)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank/AgBank	**75,908**	7,190	74,175
(Decrease)/Increase in advance conditional payments	**(958)**	1,963	(3,117)
Protected borrower stock retired	**-**	-	(3)
Capital stock retired	**(145)**	(145)	(182)
Capital stock issued	**163**	108	176
Cash patronage distributions paid	**(1,500)**	(1,250)	(1,500)
Net cash provided by financing activities	**73,468**	7,866	69,549
Net increase/(decrease) in cash	**933**	(1,848)	3,134
Cash at beginning of year	**4,399**	6,247	3,113
Cash at end of year	**$ 5,332**	$ 4,399	$ 6,247
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 8,446**	$ 7,406	$ 7,606
Income taxes	**$ 1**	$ -	$ 5
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Allocated patronage from AgVantis	**$ 270**	$ 122	$ 97
Net charge-offs	**$ 6**	$ 11	$ 76
Patronage distributions payable	**$ 2,200**	$ 1,500	$ 1,250
Change in accumulated other comprehensive (loss)/income	**$ (22)**	$ -	$ -
Impact of merger transaction			
Assets acquired	**$ 131,663**	$ -	$ -
Liabilities assumed	**$ 97,436**	$ -	$ -
Equity issued	**$ 34,227**	$ -	$ -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit of Western Oklahoma, ACA and its subsidiaries, Farm Credit of Western Oklahoma, FLCA, (Federal Land Credit Association) (FLCA)) and Farm Credit of Western Oklahoma, PCA, (Production Credit Association (PCA)), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Beaver, Beckham, 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, 2014, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank and 77 associations.

Effective January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB (CoBank). As a result of the merger, CoBank became the funding bank of the Association beginning January 1, 2012.

CoBank, its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. As of December 31, 2014, the CoBank District consisted of CoBank, 25 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA), one FLCA and AgVantis.

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

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

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

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

The Association also offers credit life insurance, advance conditional payment accounts and provides additional services to borrowers such as fee appraisals.

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

C. Merger: Effective October 1, 2014, Farm Credit of Central Oklahoma, ACA (Central Oklahoma) was merged into Farm Credit of Western Oklahoma, ACA, (Western Oklahoma). Western Oklahoma acquired 100% of the assets and liabilities of Central Oklahoma. The merged Association is headquartered in Woodward, Oklahoma. The primary reason for the merger was to ensure long-term viability by increasing the capital base thus allowing the Association to withstand fluctuations in the agriculture markets. The effects of the merger are included in the Association's results of operations, balance sheet, average balances and related metrics beginning in 2014.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2014. The Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity and the Consolidated Statement of Cash Flows reflect the results of Western Oklahoma prior to October 1, 2014 and the merged Association after October 1, 2014. Information presented in the Notes to the Consolidated Financial Statement for 2014 reflects balances of the merged Association as of December 31, or in the case of transactional activity, of the merged Association for the period of October 1 to December 31.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the Associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these reports and other respects, the shares of Central Oklahoma stock that were converted in the merger and the shares of Western Oklahoma stock to which they were converted had identical rights and attributes. For this reason the conversion of Central Oklahoma stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Central Oklahoma share was converted into one share of Western Oklahoma stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the Western Oklahoma stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, Western Oklahoma undertook a process to identify and estimate the acquisition-date fair value of Central Oklahoma's equity interests instead of the acquisition-date fair value of Western Oklahoma's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Central Oklahoma, were measured based on various estimates using assumptions that Western Oklahoma management believes are reasonable utilizing information currently available. Use of different estimate and judgments could yield materially different results.

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC 8055, Business Combinations (ASC 805)). Pursuant to these rules, Western Oklahoma acquired the assets and assumed the liabilities of Central Oklahoma at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($34.2 million) was substantially equal to the fair value of the equity interest exchanged in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. A net increase of $34.2 million was recorded in shareholder' equity related to the merger.

The following condensed statement of net assets acquired reflects that fair value assigned to Central Oklahoma's net assets as of the acquisition date. There were not subsequent changes to these fair values.

Condensed Statement Of Net Assets Acquired	October 1, 2014
Assets	
Net loans	$ 125,115
Cash	79
Accrued interest receivable	1,822
Other Assets	4,647
Total Assets	$ 131,663
Liabilities	
Notes payable	$ 95,956
Accrued interest payable	709
Other liabilities	771
Total Liabilities	$ 97,436
Fair Value of Net Assets Acquired	$ 34,227

Fair value adjustments to Central Oklahoma's assets and liabilities included a $381 decrease to loans and a $401 decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans, which totaled $127.0 million at October 1, 2014.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association's financial condition or its results of operations.

Below is a summary of our significant accounting policies.

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

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

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

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

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

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

The Association purchases loan participations from other System and non-System entities to generate additional earnings and diversify risk. 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 accounted for following the accounting requirements for sale treatment.

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. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired 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.

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 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 range from 10 to 45 years and ranges 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. 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 non-restricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

G. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan

(401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Pension Plan was closed to employees beginning January 1, 2007.

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.

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

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

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the funding 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 funding 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 funding Bank's post-1992 unallocated earnings.

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

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

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

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

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

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

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2014	2013	2012
Real estate mortgage	**$ 426,293**	$ 305,289	$ 300,101
Production and intermediate-term	**230,334**	152,740	137,879
Agribusiness:			
Loans to cooperatives	**2,998**	4,622	8,345
Processing and marketing	**4,945**	2,813	4,356
Farm related business	**1,271**	646	1,022
Communication	**1,830**	–	–
Energy	**858**	–	–
Rural residential real estate	**2,822**	1,764	1,594
Total loans	**$ 671,351**	$ 467,874	$ 453,297

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, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 33,579	$ 13,494	$ 2,474	$ –	$ 36,053	$ 13,494
Production and intermediate-term	25,078	3,888	–	–	25,078	3,888
Agribusiness	6,902	–	–	–	6,902	–
Communication	1,830	–	–	–	1,830	–
Energy	858	–	–	–	858	–
Total	$ 68,247	$ 17,382	$ 2,474	$ –	$ 70,721	$ 17,382

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

	December 31					
	2014		2013		2012	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Beef	**$395,560**	**58.92%**	$281,426	60.15%	$ 279,321	61.62%
Cash Grain/Corn/Sorghum	**94,191**	**14.03%**	61,713	13.19%	62,782	13.85%
Wheat	**75,930**	**11.31%**	62,040	13.26%	54,985	12.13%
Landlords	**34,776**	**5.18%**	11,042	2.36%	6,255	1.38%
Peanuts/Cotton/Peppers/Watermelon	**15,844**	**2.36%**	8,468	1.81%	9,655	2.13%
Dairy	**13,091**	**1.95%**	9,264	1.98%	4,760	1.05%
Hay	**12,688**	**1.89%**	6,924	1.48%	5,485	1.21%
Ag Services	**7,922**	**1.18%**	7,252	1.55%	9,474	2.09%
Hogs	**3,558**	**0.53%**	3,135	0.67%	4,261	0.94%
Harvesting	**3,088**	**0.46%**	2,948	0.63%	499	0.11%
Nursery	**1,678**	**0.25%**	702	0.15%	997	0.22%
Poultry	**–**	**–**	–	–	272	0.06%
Other	**13,025**	**1.94%**	12,960	2.77%	14,551	3.21%
Total	**$671,351**	**100.00%**	$467,874	100.00%	$ 453,297	100.00%

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

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

Credit enhancements with federal government agencies of $23,589 at year-end 2014, $19,481 at year-end 2013 and $20,063 at year-end 2012 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.

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

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

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

	2014	2013	2012
Real estate mortgage			
Acceptable	**99.29%**	99.30%	98.50%
OAEM	**0.48%**	0.48%	1.44%
Substandard	**0.23%**	0.22%	0.06%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**99.13%**	96.64%	97.94%
OAEM	**0.85%**	1.80%	1.84%
Substandard	**0.02%**	1.56%	0.22%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**99.67%**	98.89%	84.19%
OAEM	**0.33%**	1.11%	8.29%
Substandard	**–**	–	7.52%
Total	**100.00%**	100.00%	100.00%
Communication			
Acceptable	**100.00%**	–	–
Total	**100.00%**	–	–
Energy			
Acceptable	**100.00%**	–	–
Total	**100.00%**	–	–
Rural residential real estate			
Acceptable	**93.47%**	100.00%	100.00%
Substandard	**6.53%**	–	–
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**99.22%**	98.42%	97.90%
OAEM	**0.63%**	0.92%	1.77%
Substandard	**0.15%**	0.66%	0.33%
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		
	2014	2013	2012
Nonaccrual loans:			
Current as to principal and interest	**$ 84**	$ –	$ 171
Past due	**–**	–	37
Total nonaccrual loans	**84**	–	208
Impaired accrual loans:			
Restructured accrual loans	**51**	–	–
Total impaired accrual loans	**51**	–	–
Total impaired loans	**$ 135**	$ –	$ 208

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

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

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

	December 31		
(dollars in thousands)	**2014**	2013	2012
Nonaccrual loans			
Real estate mortgage	**$ 84**	$ –	$ 171
Production and intermediate-term	**–**	–	37
Total nonaccrual loans	**84**	–	208
Accruing restructured loans			
Real estate mortgage	**51**	–	–
Total accruing restructured loans	**51**	–	–
Total impaired loans	**$ 135**	$ –	$ 208

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/14	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 135	$ 150		$ 78	$ –
Production and intermediate-term	–	1,480		–	–
Total	$ 135	$ 1,630		$ 78	$ –

	Recorded Investment at 12/31/13	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ –	$ –		$ 164	$ –
Production and intermediate-term	–	1,479		174	15
Total	$ –	$ 1,479		$ 338	$ 15

	Recorded Investment at 12/31/12	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 171	$ 181		$ 914	$ 55
Production and intermediate-term	37	1,498		163	12
Loans to cooperatives	–	–		78	12
Rural residential real estate	–	–		–	2
Total	$ 208	$ 1,679		$ 1,155	$ 81

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

There were no impaired loans with a related allowance for credit losses for the years presented.

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

	Year Ended December 31		
	2014	2013	2012
Interest income recognized on:			
Nonaccrual loans	**$ –**	$ –	$ 67
90 days or more past due	**–**	15	14
Interest income recognized on impaired loans	**$ –**	$ 15	$ 81

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		
	2014	2013	2012
Interest income which would have been recognized under the original loan terms	**$ 73**	$ 68	$ 70
Less: interest income recognized	**–**	–	67
Interest income not recognized	**$ 73**	$ 68	$ 3

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

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 114	$ –	$ 114	$ 431,395	$ 431,509	$ –
Production and intermediate-term	–	–	–	232,783	232,783	–
Agribusiness	–	–	–	9,256	9,256	–
Communication	–	–	–	1,830	1,830	–
Energy	–	–	–	861	861	–
Rural residential real estate	–	–	–	2,832	2,832	–
Total	$ 114	$ –	$ 114	$ 678,957	$ 679,071	$ –

December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 212	$ –	$ 212	$ 308,869	$ 309,081	$ –
Production and intermediate-term	–	–	–	155,016	155,016	–
Agribusiness	–	–	–	8,104	8,104	–
Rural residential real estate	–	–	–	1,782	1,782	–
Total	$ 212	$ –	$ 212	$ 473,771	$ 473,983	$ –

December 31, 2012	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 40	$ –	$ 40	$ 303,664	$303,704	$ –
Production and intermediate-term	162	37	199	139,730	139,929	–
Agribusiness	8	–	8	13,759	13,767	–
Rural residential real estate	–	–	–	1,604	1,604	–
Total	$ 210	$ 37	$ 247	$ 458,757	$459,004	$ –

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.

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

	Loans Modified as TDRs			TDRs in Nonaccrual Status*		
	2014	2013	2012	2014	2013	2012
Real estate mortgage	$ 135	$ –	$ –	$ 84	$ –	$ –
Total	$ 135	$ –	$ –	$ 84	$ –	$ –

*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:

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2014
Real estate mortgage	$ 167	$ –	$ –	$ –	$ 167
Production and intermediate-term	2,026	21	15	(26)	1,994
Agribusiness	52	–	–	32	84
Communication	–	–	–	1	1
Energy	–	–	–	2	2
Rural residential real estate	2	–	–	(1)	1
Total	$ 2,247	$ 21	$ 15	$ 8	$ 2,249

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2013
Real estate mortgage	$ 182	$ –	$ –	$ (15)	$ 167
Production and intermediate-term	1,908	66	55	129	2,026
Agribusiness	70	–	–	(18)	52
Rural residential real estate	2	–	–	–	2
Total	$ 2,162	$ 66	$ 55	$ 96	$ 2,247

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2012
Real estate mortgage	$ 54	$ 41	$ 41	$ 128	$ 182
Production and intermediate-term	2,018	116	40	(34)	1,908
Agribusiness	73	–	–	(3)	70
Rural residential real estate	4	–	–	(2)	2
Total	$ 2,149	$ 157	$ 81	$ 89	$ 2,162

	Allowance for Credit Losses Ending Balance at December 31, 2014		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 167	$ 151	$ 431,358
Production and intermediate-term	–	1,994	–	232,783
Agribusiness	–	84	–	9,256
Communication	–	1	–	1,830
Energy	–	2	–	861
Rural residential real estate	–	1	–	2,832
Total	$ –	$ 2,249	$ 151	$ 678,920

	Allowance for Credit Losses Ending Balance at December 31, 2013		Recorded Investment 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	$ –	$ 167	$ –	$ 309,081
Production and intermediate-term	–	2,026	–	155,016
Agribusiness	–	52	–	8,104
Rural residential real estate	–	2	–	1,782
Total	$ –	$ 2,247	$ –	$ 473,983

	Allowance for Credit Losses Ending Balance at December 31, 2012		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2012	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 182	$ 171	$ 303,533
Production and intermediate-term	–	1,908	37	139,892
Agribusiness	–	70	–	13,767
Rural residential real estate	–	2	–	1,604
Total	$ –	$ 2,162	$ 208	$ 458,796

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2014, 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 0.71 percent of the outstanding common stock of CoBank at December 31, 2014.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2014	2013	2012
Land	**$ 202**	$ 158	$ 158
Buildings and leasehold improvements	**2,581**	2,427	2,427
Furniture, equipment and automobiles	**1,750**	1,580	1,538
	4,533	4,165	4,123
Less: accumulated depreciation	**2,736**	2,526	2,431
Total	**$ 1,797**	$ 1,639	$ 1,692

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for an open-ended revolving line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2014. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.87 percent for the year ended December 31, 2014, compared with 1.89 percent at December 31, 2013, and 2.16 percent at December 31, 2012.

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:

	2014	2013	2012
Average committed funds	**$ 89,952**	$ 75,679	$ 70,625
Average rates	**0.08%**	0.15%	0.26%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2014, the Association's notes payable was within the specified limitations.

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Protected Borrower Stock

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

B. Capital Stock

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

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

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2014, the Association's permanent capital ratio was 17.41 percent, total surplus ratio was 17.10 percent and core surplus ratio was 17.10 percent.

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2014. Unless otherwise indicated all classes of stock have a par value of $5.00.

Class A — Common Stock (Nonvoting, at-risk, no shares outstanding) - Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.

Class B — Common Stock (Voting, at-risk, 387,790 shares outstanding) - Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class C Common Stock (Nonvoting, at-risk, 5,410 shares outstanding) - Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

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

Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and CoBank) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.

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

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

The changes in the number of shares of protected and capital stock outstanding during 2014 are summarized in the following table.

Shares in whole numbers	Protected	Capital
Balance outstanding at January 1, 2014	61	268,044
Issuances	–	154,134
Retirements	–	(28,978)
Balance outstanding at December 31, 2014	61	393,200

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $1,500 in 2014, $1,250 in 2013 and $1,500 in 2012 and declared a $2,200 patronage in 2014 to be distributed in April 2015.

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 2014, the Association allocated 31.92 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive loss of $22 in 2014. There was no other comprehensive income or loss in 2013 or 2012. There were no other items affecting comprehensive income or loss.

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

	2014
Pension and other benefit plans:	
Beginning balance	**$ –**
Other comprehensive income before reclassifications	**(22)**
Amounts reclassified from accumulated other comprehensive loss	**–**
Net current period other comprehensive income	**(22)**
Year-end balance	**$ (22)**

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

	2014	2013	2012
CoBank	**$ 1,898**	$ 1,719	$ 1,563
AgVantis	**210**	153	121
Farm Credit Foundations	**5**	5	5
Total	**$ 2,113**	$ 1,877	$ 1,689

Patronage distributed from CoBank was in cash. The amount earned in 2014 was accrued and will be paid by CoBank in March 2015. The amount earned and accrued in 2013 was paid by CoBank in March 2014. The amount declared in December 2012 by CoBank was accrued in 2012 and was paid in March 2013.

Patronage distribution from AgVantis was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received.

Patronage distributed by Farm Credit Foundations was in cash and was recorded in the year received. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 9 – INCOME TAXES

The provision for income taxes follows.

	Year Ended December 31		
	2014	2013	2012
Current:			
Federal	**$ 1**	$ 1	$ 1
State	**–**	–	–
Provision for income taxes	**$ 1**	$ 1	$ 1

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows.

	Year Ended December 31		
	2014	2013	2012
Federal tax at statutory rate	**$ 2,345**	$ 2,244	$ 2,131
Effect of non-taxable FLCA subsidiary	**(1,910)**	(2,037)	(1,895)
Change in valuation allowance	**(52)**	38	(25)
Patronage refunds to borrowers	**(381)**	(243)	(209)
Other	**(1)**	(1)	(1)
Provision for income taxes	**$ 1**	$ 1	$ 1

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2014	2013	2012
Deferred income tax assets:			
Allowance for loan losses	**$ 329**	$ 335	$ 296
Nonaccrual loan interest	**12**	9	7
Depreciation	**37**	37	36
Charitable contribution carryover	**2**	2	2
Net operating loss carryforwards	**40**	40	40
Gross deferred tax assets	**420**	423	381
Deferred tax asset valuation allowance	**(152)**	(211)	(168)
Deferred income tax liabilities:			
Bank patronage allocation	**(242)**	(187)	(187)
Sale of fixed assets	**(3)**	(2)	(3)
Depletion	**(23)**	(23)	(23)
Gross deferred tax liability	**(268)**	(212)	(213)
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 $152 in 2014, $211 in 2013 and $168 in 2012. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2014, the Association had federal and state net operating loss carryforwards of $40 that expire from 2024 to 2026.

The Association has no uncertain tax positions as of December 31, 2014, 2013 or 2012. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The Association accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more-likely-than-not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more-likely-than-not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2011 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 $89.8 million at December 31, 2014. 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 $242.1 million at December 31, 2014, $203.2 million at December 31, 2013 and $210.1 million at December 31, 2012. The fair value of the plan assets was $152.3 million at December 31, 2014, $144.7 million at December 31, 2013 and $116.2 million at December 31, 2012. 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 projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $12.9 million in 2014, $15.8 million in 2013 and $25.4 million in 2012. The Association's allocated share of plan expenses included in salaries and employee benefits was $721 in 2014, $913 in 2013, and $741 in 2012. Participating employers contributed $11.1 million in 2014, $14.6 million in 2013 and $12.8 million in 2012 to the plan. The Association's allocated share of these pension contributions was $781 in 2014, $843 in 2013, and $730 in 2012. 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 2015 is $13.0 million. The Association's allocated share of these pension contributions is expected to be $998. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits) included in salaries and employee benefits were $3 in 2014, $5 in 2013 and $5 in 2012. These expenses are equal to the Association's cash contributions for each year.

As part of the merger, the Association acquired nonqualified pension liabilities. 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 $1 in 2014; there were no Pension Restoration Plan expenses in 2013 and 2012.

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
	2014
Change in benefit obligation:	
Benefit obligation at the beginning of the period	**$ –**
Interest cost	**1**
Obligation acquired in merger	**40**
Actuarial loss/(gain)	**22**
Benefit obligation at the end of the period	**$ 63**
Fair value of plan assets at the end of the period	**–**
Funded status of the plan	**$ (63)**
Amounts recognized in the Consolidated Statement of Condition consist of:	
Liabilities	**$ 63**
Net amount recognized	**$ 63**

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

	2014
Net actuarial loss	**$ (22)**
Total amount recognized in AOCI/(loss)	**$ (22)**

An estimated net actuarial loss of $4 for the Pension Restoration Plan will be amortized into income over the next year.

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

	2014
Projected benefit obligation	**$ 63**
Accumulated benefit obligation	**$ 22**

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.

	2014
Components of net periodic benefit cost/(income)	
Interest cost	**$ 1**
Net periodic benefit cost	**$ 1**

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

	2014
Current year net actuarial loss	**$ 22**
Total recognized in other comprehensive loss	**$ 22**

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

	2014
Discount rate	**4.10%**
Rate of compensation increase	**5.00%**

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

	2014
Discount rate	**4.90%**
Rate of compensation increase	**5.00%**

The Association does not expect to contribute to the Pension Restoration Plan in 2015.

Estimated Future Benefit Payments

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

	Pension Restoration Benefits
2015	$ –
2016	$ –
2017	$ –
2018	$ –
2019	$ –
2020 – 2024	$ 1

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 $259 in 2014, $226 in 2013 and $196 in 2012.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

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

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

	2014	2013	2012
New loans	**$ 12,032**	$ 8,612	$ 9,713
Repayments	**$ 11,587**	$ 8,395	$ 8,984
Ending balance	**$ 10,584**	$ 7,894	$ 7,488

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2014 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $827 in 2014, $703 in 2013 and $696 in 2012 to AgVantis for technology services and $95 in 2014, $89 in 2013 and $80 in 2012 to CoBank for operational services. One Association officer, elected by AgVantis' owners, serves as an AgVantis' director. The Association paid $90 in 2014, $69 in 2013, and $68 in 2012 to Foundations for human resource services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. 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, 2014, $130,157 of commitments to extend credit and $219 of commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2014, $206 of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2015 to 2019. The maximum potential amount of future payments the Association is required to make under the guarantees is $206.

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:

The Association has assets held in nonqualified benefit trusts measured at fair value on a recurring basis that are determined to be Level 1 of $88 at December 31, 2014. The Association had no assets measured at fair value on a recurring basis at December 31, 2013 and 2012.

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

	Fair Value Measurement Using			**Total Fair**	**Total**
	Level 1	**Level 2**	**Level 3**	**Value**	**Gains/(Losses)**
Assets: Loans					
2014	**$ –**	**$ –**	**$ –**	**$ –**	**$ 1**
2013	$ –	$ –	$ –	$ –	$ 18
2012	$ –	$ –	$ 212	$ 212	$ 99

The estimated fair values of the Association's financial instruments recorded at carrying amount on the Consolidated Statement of Condition follow.

	December 31					
	2014		2013		2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	**$ 669,102**	**$ 665,889**	$ 465,627	$ 460,515	$ 451,135	$ 453,094
Cash	**$ 5,332**	**$ 5,332**	$ 4,399	$ 4,399	$ 6,247	$ 6,247
Assets held in nonqualified benefits trusts	**$ 88**	**$ 88**	$ 17	$ 17	$ 3	$ 3
Financial liabilities:						
Note payable to CoBank	**$ 566,065**	**$ 565,769**	$ 394,198	$ 389,625	$ 387,008	$ 391,295
Advance conditional payments	**$ 6,253**	**$ 6,253**	$ 7,211	$ 7,211	$ 5,248	$ 5,248

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 clash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of 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:

Loans

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

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

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

With regards to impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. For certain loans evaluated for impairment under accounting impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

Cash

The carrying value is a reasonable estimate of fair value.

Assets Held in Non-Qualified Benefits Trusts

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

Note Payable to CoBank

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

Advance Conditional Payments

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

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations. These are generally classified as Level 3 and are valued by using discounted cash flows with unobservable inputs of rate of funding and risk-adjusted spread. As of December 31, 2014, 2013 and 2012, the fair value was considered nominal.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2014, 2013 and 2012, follow.

	2014				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 3,161**	**$ 3,161**	**$ 3,264**	**$ 4,509**	**$14,095**
(Loan loss reversal)/Provision for loan losses	**(72)**	**(9)**	**49**	**40**	**8**
Noninterest expenses, net	**1,889**	**1,341**	**1,729**	**2,231**	**7,190**
Net income	**$ 1,344**	**$ 1,829**	**$ 1,486**	**$ 2,238**	**$ 6,897**

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,050	$ 3,075	$ 3,178	$ 3,114	$ 12,417
Provision for loan losses/(Loan loss reversal)	76	177	(47)	(110)	96
Noninterest expenses, net	1,910	1,268	1,121	1,425	5,724
Net income	$ 1,064	$ 1,630	$ 2,104	$ 1,799	$ 6,597

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,690	$ 2,759	$ 2,854	$ 2,870	$ 11,173
Provision for loan losses/(Loan loss reversal)	92	99	(32)	(70)	89
Noninterest expenses, net	1,725	755	1,016	1,319	4,815
Net income	$ 873	$ 1,905	$ 1,870	$ 1,621	$ 6,269

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2015 which is the date the financial statements were issued, and no material subsequent events were identified.

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

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

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

Description of Property

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

Location	Description	Form of Ownership
3302 Williams Avenue Woodward, Oklahoma	Headquarters Office	Owned
2600 Modelle Avenue Clinton, Oklahoma	Branch Office	Owned
2143 Highway No. 64 Guymon, Oklahoma	Branch Office	Owned
219 Oklahoma Blvd Alva, Oklahoma	Branch Office	Owned
101 Carter Road Elk City, Oklahoma	Branch Office	Rented
Corner of Mission & Georgia Anadarko, Oklahoma	Branch Office	Owned
430 N. Broadway Taloga, Oklahoma	Satellite Office	Owned
106 East 1st Street Cordell, Oklahoma	Satellite Office	Rented
819 Douglas Beaver, Oklahoma	Satellite Office	Rented
204 W 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.

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DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 6 to the financial statements, "Note Payable to CoBank," included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 included in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2014, 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

Ronald W. White	-	Chairman. Mr. White has been a member of the board since June 1988. For the past five years he has been involved in the following agricultural enterprises: corn and wheat. He is a vice-chairman of Tri County Electric Cooperative Board, a provider of electric power for the Oklahoma Panhandle and surrounding states and a member of the Oklahoma Association of Electric Cooperatives Board. His term expires in 2015.
Ricky Carothers	-	Vice Chairman. Mr. Carothers joined the Farm Credit of Western Oklahoma, ACA (Western Oklahoma) board of Directors in October 2014 with the merger/acquisition of Farm Credit of Central Oklahoma, ACA (Central Oklahoma) by Western Oklahoma. He was elected to the Central Oklahoma board of directors in 2003. For the past five years he has been involved in the following agricultural enterprises: wheat, cow/calf and stocker cattle. His term expires in 2015.
Steve Calhoun	-	Director. Mr. Calhoun joined the Western Oklahoma board of Directors in October 2014 with the merger/acquisition of Central Oklahoma by Western Oklahoma. He was elected to the Central Oklahoma board of directors in 2012. For the past five years he has been involved in the following agricultural enterprises: cow/calf, wheat and hay. Mr. Calhoun is the general manager of Ross Seed Company, in Chickasha, Oklahoma. He is President of Bar-K Inc., a family farming corporation; owner of Steve Calhoun Farms; a member of the Grady County Farm Bureau Board, former director of Oklahoma Crop Improvement Foundation and a former director of Grady County FSA Committee. His term expires in 2015.
David Dolch	-	Director. Mr. Dolch joined the Western Oklahoma board of Directors in October 2014 with the merger/acquisition of Central Oklahoma by Western Oklahoma. He was elected to the Central Oklahoma board of directors in 2012. For the past five years he has been involved in the following agricultural enterprises: Cow/calf, club calves and cattle semen. He is assistant manager at Clinton Livestock Auction, a livestock auction barn, and President of Verden Ag Boosters. His term expires in 2017.
James E. Hardy	-	Director. Mr. Hardy has been a member of the board since September 1986. For the past five years he has been involved in wheat and hay production, cow/calf, registered Angus

cattle, stocker cattle and grass rental income. He retired in April 2011 as the Activities Officer II at the William S. Key Correctional Facility, a minimum security prison. His term expires in 2017.

Kenton Javorsky	-	Director. Mr. Javorsky has been a member of the board since November 2009. For the past five years he has been involved in the following agricultural enterprises: wheat, cotton, milo, sesame, hay, cow-calf and custom cotton harvesting and some custom planting. He is President of Welderson Farms Inc., a family farming operation; part owner of A&K Skid Steer Service, a cedar tree removal business; board chairman of the Western Oklahoma Christian School, a private elementary school in Clinton; a member of the Corn Bible Academy Relocation Committee and member of Friends of Christian Education Board, both educational committees; and was formerly on the Board of Directors of Midwest Farmer's Coop, a cotton gin, feed, fertilizer and fuel coop. His term will expire in 2015.
Dennie Jenkins	-	Director. Mr. Jenkins was first elected to the board in 2013. For the past five years he has been involved in the following agricultural enterprises: Registered Angus cattle, wheat, seed cleaning and custom farming, swathing and baling hay. He is secretary-treasurer of OK&T Angus Breeders Association, an association to merchandise registered Angus cattle; member-secretary for the Ellis County Farm Bureau, secretary-treasurer of the Catsby Volunteer Fire Department, and a past director of Northwest Cattlemen's Association. His term expires in 2016.
Tyler Kamp	-	Director. Mr. Kamp has been a member of the board since May, 2014. For the past five years he has been involved in the following agricultural enterprises: cow/calf, stocker cattle, wheat, sudan, milo, silage and custom swathing and baling. He is Vice President of the Lavern Coop Board, a feed, fertilizer and fuel coop; and a volunteer of the Slapout Fire Department. His term expires in 2017.
Jimmie Musick	-	Director. Mr. Musick has been a member of the board since September 1988. For the past five years he has been involved in the following agricultural enterprises: wheat, alfalfa hay, cotton, sorghum, milo, corn and stocker cattle. He is President and owner of Musick Farms, a family farming operation and an order buyer for Cross Roads Livestock; owner of Musick and Varner Funeral Home, LLC, a funeral home business located in Cordell and Sentinel. He is Chairman of the Board of National Wheat Growers Foundation, past president of Oklahoma Wheat Growers, Chairman of the Washita County Excise Board, and is a former member of the Washita County Health Board. His term expires in 2016.
LaVern Phillips	-	Appointed Director. Mr. Phillips has served as appointed director on the board since February 1996. For the past twenty-five years he has been employed by Woodward Industrial Foundation, an economic development business, serves on the Health Services Foundation, an assisted living provider, and serves on the TRUST (Transportation Revenue Used Strictly for Transportation) Board, an infrastructure board. His term expires in 2015.
Jimmie Purvine	-	Director. Mr. Purvine was elected to the board in May 2005. For the past five years, he has been involved in the following agricultural enterprises: wheat, milo, hay, soybeans, corn, silage, beans, cow/calf and stockers. He is a President of Purvine Farms, Inc., a family farming business, and a board member of the Dewey County Conservation District. Mr. Purvine served as Chairman of the Board from May, 2011 thru September 30, 2014. His term expires in 2017.
Alan Schenk	-	Director. Mr. Schenk joined the Western Oklahoma board of Directors in October 2014 with the merger/acquisition of Central Oklahoma by Western Oklahoma. He was elected to the Central Oklahoma board of directors in 2004. For the past five years he has been involved in the following agricultural enterprises: Cow/calf, stocker cattle, wheat and alfalfa. He is former president and currently vice-president of DO-BE Holstein Farms, Inc. a family corporation. His term expires in 2016.
Steve Semmel	-	Director. Mr. Semmel was elected to the board in May 2003. For the past five years he has been involved in the following agricultural enterprises: wheat and hay production,

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improved grasses, cow/calf and stocker cattle. He is a partner with his son in S & S Farm & Ranch, a cattle and wheat business; a partner in the Woodward NAPA, an auto parts store; and partner and vice-president of OK Rental Equipment, an oilfield equipment rental business. Mr. Semmel serves on the Woodward Elks Rodeo Committee and is their treasurer. His term expires in 2015.

Bobby Tarp - Appointed Director. Mr. Tarp joined the Western Oklahoma board of Directors in October 2014 with the merger/acquisition of Central Oklahoma by Western Oklahoma. He was appointed to the Central Oklahoma board of directors in 1993. For the past five years he has been involved in the following agricultural enterprises: Cow/calf, stocker cattle, corn, wheat and hay. He is an FSA County Committeeman. His term expires in 2017.

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

SENIOR OFFICERS

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

Mike McDonald - Chief Credit Officer. Mr. McDonald has served in the Farm Credit System since January 31, 1996. He has served as Chief Credit Officer since December 2003. He also has a part-time farming and ranching operation; involved in oil, gas and wind production; residential rental properties and is a director/manager for Northwest Travelers, Inc., a summer baseball program.

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

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

Curtis Constien - Chief Development Officer. Mr. Constien has served in the Farm Credit System since May 19, 1980. He served as Chief Operations Officer from January 2008 to October, 2014. Mr. Constien served as Branch Manager – Vice President of the Clinton office from 1989 through 2007. He is a board member for Midwestern Oklahoma Development Authority, a public trust organized in 1969, for the purpose of administration and development of the Clinton-Sherman Airport.

Blake Byrd - Chief Banking Officer. Mr. Byrd has served in the Farm Credit System since June 6, 1988. He served as the President/CEO of Farm Credit of Central Oklahoma from October 2007 thru September 30, 2014 when Farm Credit of Central Oklahoma was acquired by Farm Credit of Western Oklahoma. He has also served as Chief Credit Officer and Chief Financial Officer for Central Oklahoma.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $400 per day, $150 for conference calls, plus $20 per hour driving time from January through September 2014. However, two additional Audit committee meetings were held. Compensation for those meetings was $400 per day, plus $20 per hour driving time. Effective October 1, 2014 they received a monthly stipend of $1,000 per month plus $400 per day for attendance at a meeting in excess of 2 consecutive days, and $20 per hour driving time. The Chairman of the Board receives an additional $250 per month and the Audit Committee and Compensation Committee chairmen receive an additional $100 per month. Some of the Compensation Committee meetings were held in conjunction with the regular board meetings or other meetings, so no additional compensation was paid to the directors for these meetings. They were reimbursed mileage at the rate of $0.56 per mile throughout the year.

Additional information for each director is provided below:

	Number of Days Served at		Compensation for		
Name	Board Meetings	Other Official Activities	Board Meetings and Other Official Duties	Audit Committee	Total Compensation Paid During 2014
Ronald W. White	13	20	$ 16,070	$ 800	$ 16,870
Ricky Carothers*	3	4	4,700	–	4,700
Steve Calhoun*	3	–	3,210	–	3,210
David Dolch*	3	4	4,010	–	4,010
James E. Hardy	11	4	7,940	–	7,940
Kenton Javorsky	10	6	8,490	–	8,490
Dennie Jenkins	13	10	10,280	–	10,280
Tyler Kamp	6	–	4,580	–	4,580
Jimmie Musick	13	6	10,160	–	10,160
LaVern Phillips	12	12	10,650	400	11,050
Jimmie Purvine	13	19	13,810	800	14,610
Alan Schenk*	3	4	4,240	–	4,240
Steve Semmel	12	14	11,780	800	12,580
Bobby Tarp*	3	4	4,180	–	4,180
Bobbie Apple	6	7	6,130	–	6,130
Total Compensation			$ 120,230	$ 2,800	$ 123,030

* These individuals were directors of Farm Credit of Central Oklahoma prior to October 1 when the merger/acquisition took place. They were paid for those services by Farm Credit of Central Oklahoma and those amounts are not included.

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 $69,032 in 2014, $54,180 in 2013 and $86,484 in 2012. There was no non-cash compensation paid to directors as a group during 2014.

		Annual				
President and CEO	Year	Salary	Incentive Plan	Change in Pension Value	Deferred/ Perquisites/ Other	Total
John Grunewald	2014	$ 256,390	$ 42,162	$ 309,595	$ 34,637	$ 642,784
John Grunewald	2013	$ 238,952	$ 42,163	$ 162,558	$ 35,017	$ 478,690
John Grunewald	2012	$ 216,170	$ 54,298	$ –	$ 34,165	$ 304,633

Aggregate Number of Senior Officers/Highly compensated Individuals (excluding CEO)	Year	Annual Salary	Incentive Compensation	Change in Pension Value	Deferred/ Perquisites/ Other	Total
5	2014	$ 921,827	$ 179,975	$ 987,699	$ 170,763	$2,260,264
5	2013	$ 825,834	$ 168,284	$ 300,666	$ 101,806	$1,396,590
5	2012	$ 805,745	$ 190,835	$ –	$ 95,414	$1,091,994

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.

Deferred/Perq/Other represents reimbursements for unused annual leave, Christmas bonus, vehicle expense, spouse travel expense, life insurance and long-term disability premiums, and employer match on a defined contribution plan available to all employees. 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 31of the previous year, disclosed in Note 10 of the Financial Statements. This value was not required to be reported for the year 2012. No tax reimbursements are made to senior officers/highly compensated individuals.

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.

As of December 31, 2014 President/CEO	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
John Grunewald	Ninth Pension Plan	36.39	$ 1,894,850	$ –
	Nonqualified Pension Restoration Plan		$ 292,637	$ –

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
4	Ninth Pension Plan	25.20	$ 5,061,847	$ –
	Nonqualified Pension Restoration Plan		$ 28,090	$ –

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

Retirement Plan Overview – The CEO participates in two defined benefit retirement plans: (a) the Ninth Farm Credit District Pension Plan (the Pension Plan), which is a qualified defined benefit plan and (b) the Ninth District Pension Restoration Plan, which is a nonqualified retirement plan. The senior officers participate in the Pension Plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. Certain eligible employees participate in the 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.

Qualified Pension Plan – In general, the Pension Plan 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

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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.

Nonqualified Pension Restoration Plan – The Pension Restoration Plan is unfunded and not qualified 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 Qualified Pension Plan disregarding the limitations imposed under Internal Revenue Code Sections 401(a)(17) and 415, over the pension actually payable under the Qualified Pension Plan. The plan also restores any benefits attributable to non-qualified deferred compensation excluded from the benefit determined under the Qualified Pension Plan. The non-qualified 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. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

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

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2015, 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 2013 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.