2009

ANNUAL REPORT

FARM CREDIT OF WESTERN OKLAHOMA, ACA

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2009	2008	2007	2006	2005
Statement of Condition Data					
Loans	**$ 342,780**	$ 322,796	$ 254,541	$ 215,364	$ 209,001
Less allowance for loan losses	**1,994**	2,069	1,523	1,620	1,621
Net loans	**340,786**	320,727	253,018	213,744	207,380
Investment in U.S. AgBank, FCB	**9,614**	7,805	7,410	7,410	7,073
Other assets	**10,354**	13,081	12,154	11,911	8,955
Total assets	**$ 360,754**	$ 341,613	$ 272,582	$ 233,065	$ 223,408
Obligations with maturities of one year or less	**$ 4,427**	$ 5,751	$ 5,805	$ 5,282	$ 3,915
Obligations with maturities longer than one year	**288,312**	269,788	204,094	167,090	160,725
Total liabilities	**292,739**	275,539	209,899	172,372	164,640
Protected borrower stock	**9**	10	29	37	55
Capital stock	**1,328**	1,265	1,286	1,282	1,315
Unallocated retained earnings	**66,678**	64,799	61,368	59,374	57,398
Total shareholders' equity	**68,015**	66,074	62,683	60,693	58,768
Total liabilities and shareholders' equity	**$ 360,754**	$ 341,613	$ 272,582	$ 233,065	$ 223,408

	For the Year Ended December 31				
	2009	2008	2007	2006	2005
Statement of Income Data					
Net interest income	**$ 9,380**	$ 8,607	$ 6,935	$ 6,952	$ 6,365
Patronage distribution from U.S. AgBank, FCB	**152**	1,268	1,481	1,440	1,244
Provision for loan losses/(Loan loss reversal)	**921**	(1,071)	(162)	(29)	(177)
Noninterest expense, net	**5,676**	5,494	4,572	4,506	4,114
Provision for/(Benefit from) income taxes	**58**	21	13	(18)	99
Net income	**$ 2,877**	$ 5,431	$ 3,993	$ 3,933	$ 3,573
Key Financial Ratios					
For the Year					
Return on average assets	**0.82%**	1.81%	1.59%	1.72%	1.62%
Return on average shareholders' equity	**4.26%**	8.18%	6.34%	6.58%	6.18%
Net interest income as a percentage of average earning assets	**2.84%**	3.05%	2.96%	3.29%	3.08%
Net charge-offs/(recoveries) as a percentage of average net loans	**0.30%**	(0.58%)	(0.03%)	(0.01%)	0.11%
At Year End					
Shareholders' equity as a percentage of total assets	**18.85%**	19.34%	23.00%	26.04%	26.31%
Debt as a ratio to shareholders' equity	**4.30:1**	4.17:1	3.35:1	2.84:1	2.80:1
Allowance for loan losses as a percentage of loans	**0.58%**	0.64%	0.60%	0.75%	0.78%
Permanent capital ratio	**17.05%**	18.95%	23.14%	25.01%	26.40%
Total surplus ratio	**16.67%**	18.56%	22.64%	24.43%	25.77%
Core surplus ratio	**16.67%**	18.56%	21.72%	23.83%	24.66%
Net Income Distribution					
Cash patronage distributions paid	**$ 1,998**	$ 2,003	$ 1,953	$ 1,500	$ 1,497
Patronage distributions payable	**$ 1,000**	$ 2,000	$ 2,003	$ 1,957	$ 1,500
Other					
Loans serviced for U.S. AgBank, FCB	**$ 131**	$ 152	$ 274	$ 332	$ 414

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Dollars in thousands, except as noted)

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, 2009. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The accompanying financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.fcwestok.com, or upon request. We are located at 3302 Williams Avenue, Woodward, Oklahoma 73801 or may be contacted by calling (580) 256-3465 or (800) 299-3465.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

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

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region from the Black Mesa in the northwest part of the Panhandle in Cimarron County to near Carnegie in the southeast part of Washita County in Oklahoma. The counties in our territory are listed in Note 1 of the accompanying financial statements. We make production and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses. Additionally, we provide other related services to our borrowers, such as credit life insurance, livestock risk insurance, multi-peril crop and crop hail insurance, appraisal services and an investment bond program. 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.

We obtain the funding for our lending and operations from U.S. AgBank, FCB (AgBank). AgBank is a cooperative of which we are a member. AgBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District. We are materially affected by AgBank's financial condition and results of operations. The AgBank and AgBank District quarterly and annual reports are available free of charge by accessing AgBank's website, www.usagbank.com, or may be obtained at no charge by contacting us at 3302 Williams Avenue, Woodward, Oklahoma 73801 or calling (580)

256-3465 or (800) 299-3465. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current Services Agreement with AgVantis expires on December 31, 2011. We are a shareholder in AgVantis, along with all other AgVantis customers. Beginning in 2008, Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provided our payroll and human resource services.

ECONOMIC OVERVIEW

For many years, agriculture has experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support programs. As a result, our financial results were positively impacted. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices. High energy and fertilizer costs, higher feed costs, labor costs and availability, water costs and availability, increased market interest rates, adverse weather conditions and commodity price volatility can negatively impact the profitability of agricultural producers. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, our financial performance and credit quality measures would be negatively impacted. In the past year, conditions in the general and agricultural economy have been less favorable with the instability in the global markets and volatile production costs. Particularly affected have been dairy, hogs, fed cattle and ethanol. The negative impact from these less favorable conditions is somewhat lessened by the generally strong financial condition of our agricultural borrowers. However, borrowers who are more reliant on off-farm income sources may be more adversely impacted due to the weakened general economy.

Economic events created substantial turmoil in the financial sector and uncertainty in the credit markets in 2008 and 2009. During the latter part of 2009, the severe stress in the financial markets began to stabilize. The System's strong capital and liquidity position has enabled us to obtain the funding needed to fund loans to our farmer and rancher customers in response to loan demand.

During 2009, economic conditions in our region were volatile with stress in the protein sector. However, by the end of the year, some stability was experienced in this area and many of the conditions remained stable.

The outlook for 2010 shows some improvement in the profit margins for our customers. However, the overall agricultural economy will be slow to recover. The major factors that will have a material effect on our financial condition will include the volatility of the interest rate environment and continued pressure on costs of operations.

LOAN PORTFOLIO

Total loan volume was $342,780, at December 31, 2009, an increase of $19,984, or 6.19%, from loans at December 31, 2008 of $322,796, and $88,239, or 34.67%, from loans at December 31, 2007 of $254,541. The increase in loans was due to customer demand. The types of loans outstanding at December 31 are reflected in the following table.

	2009		2008		2007	
Type of Loan	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage	**$ 205,981**	**60.09%**	$ 196,023	60.73%	$ 163,534	64.25%
Production and intermediate-term	**128,676**	**37.54%**	121,036	37.50%	87,870	34.52%
Agribusiness:						
	3,069					
Cooperatives		**0.89%**	1,395	0.43%	–	–
Processing and marketing	**2,700**	**0.79%**	2,145	0.66%	1	–
Farm related business	**375**	**0.11%**	750	0.23%	1,144	0.45%
Rural residential real estate	**1,979**	**0.58%**	1,447	0.45%	1,992	0.78%
Total	**$ 342,780**	**100.00%**	$ 322,796	100.00%	$ 254,541	100.00%

Real estate mortgage volume increased to $205,981, compared with $196,023 at year-end 2008, primarily due to demand for mortgage loans. These 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 law, 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 appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies.

The production and intermediate-term volume increased 6.31% to $128,676 compared with 2008 loan volume of $121,036 primarily due to cost of operation for our customers. 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.

Cooperative loan volume increased primarily due to disbursements to an existing customer. All processing and marketing and approximately 32.0% of production and intermediate-term volume was purchased interests in loans at December 31, 2009.

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 participations purchased and sold, geographic locations served and commodities financed, as illustrated in the following three tables.

We purchase participation interests in loans from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System and non-System entities to reduce risk and comply with lending limits we have established. Our volume of participations purchased and sold as of December 31 follows.

	2009	2008	2007
Participations purchased	**$ 62,709**	$ 66,621	$ 27,799
Participations sold	**$ 10,428**	$ 19,615	$ 6,002

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

	2009	2008	2007
Beaver	**2.72%**	3.65%	3.71%
Beckham	**1.30%**	1.78%	2.10%
Cimarron	**2.46%**	3.56%	3.79%
Custer	**6.51%**	5.36%	5.68%
Dewey	**4.65%**	5.21%	5.04%
Ellis	**3.60%**	3.08%	3.90%
Harper	**6.86%**	7.52%	8.34%
Roger Mills	**4.86%**	4.65%	6.41%
Texas	**7.99%**	9.81%	10.37%
Washita	**6.29%**	6.81%	8.02%
Woods	**6.78%**	7.87%	8.98%
Woodward	**8.63%**	7.60%	8.92%
Other	**37.35%**	33.10%	24.74%
Total	**100.00%**	100.00%	100.00%

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

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

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

SIC Category	December 31 2009	2008	2007
Beef	**60.64%**	62.46%	47.61%
Wheat	**12.08%**	11.77%	11.98%
Cash grain/Corn/Sorghum	**10.47%**	11.65%	10.26%
Dairy	**3.62%**	1.86%	0.32%
Hogs	**2.07%**	1.21%	1.60%
Landlords	**1.55%**	1.57%	0.79%
Hay	**1.32%**	1.46%	0.72%
Peanuts/Cotton/Peppers/Watermelon	**0.96%**	1.88%	2.95%
Poultry	**0.90%**	1.39%	0.52%
Other	**6.39%**	4.75%	23.25%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of cattle, wheat and various other grain producers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities impacted 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, 2009, approximately 37% consists of borrowers with income not solely from agricultural sources, an increase from 31% for 2008, and 16% for 2007.

Small loans (less than $250 thousand) accounted for 37.12% of loan volume at December 31, 2009. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31.

	2009		2008		2007	
(Range in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 127,234**	**1,980**	$ 116,063	1,893	$ 113,174	1,926
$251 - $500	**42,148**	**119**	37,843	112	32,915	98
$501 - $1,000	**44,621**	**63**	41,528	57	33,735	48
$1,001 - $5,000	**117,580**	**60**	121,536	59	68,891	36
$5,001 - $25,000	**11,197**	**2**	5,826	1	5,826	1
Total	**$ 342,780**	**2,224**	$ 322,796	2,122	$ 254,541	2,109

Approximately 25% of our loan volume 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 approximately $14,484 at year-end 2009, $13,630 at year-end 2008 and $10,535 at year-end 2007 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in 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. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2009.

	Less than 1 year	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 59,399	$ 15,053	$ 1,401	$ 2,382	$ 78,235
Standby letters of credit	9	34	30	–	73
Total commitments	$ 59,408	$ 15,087	$ 1,431	$ 2,382	$ 78,308

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 contractual 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, restructured, 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. Year-end comparative information regarding high risk assets in the portfolio, including accrued interest, follows:

	2009	2008	2007
Nonaccrual loans:			
Real estate mortgage	**$ 111**	$ 821	$ 3,166
Production and intermediate-term	**3,285**	4,582	561
Agribusiness	**–**	5	18
Total nonaccrual loans	**3,396**	5,408	3,745
Accruing restructured loans:			
Real estate mortgage	**135**	189	392
Accruing loans 90 days or more past due:			
Real estate mortgage	**128**	–	–
Total high risk assets	**$ 3,659**	$ 5,597	$ 4,137
Nonaccrual loans to total loans	**0.99%**	1.68%	1.47%
High risk assets to total loans	**1.07%**	1.73%	1.63%
High risk assets to total shareholders' equity	**5.38%**	8.47%	6.60%

We had no other property owned for any of the years presented.

Total high risk assets decreased $1,938, or 34.63%, to $3,659 at December 31, 2009 compared with year-end 2008, primarily due to a decrease in nonaccrual loan volume.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $2,012 compared with December 31, 2008 primarily due to repayments, payoffs and a large poultry producer that transferred to accrual status. During 2008, one large poultry processor filed for bankruptcy protection during the fourth quarter and was transferred into nonaccrual. During December 2009, the processor emerged from bankruptcy and was reinstated to accrual status. The decrease was partially offset by two livestock loans that transferred to nonaccrual during 2009. Both loans had partial charge-offs totaling $983 during 2009. These two loans comprise approximately 97% of our nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31.

	2009	2008	2007
Nonaccrual current as to principal and interest	**$ 2,991**	$ 5,408	$ 3,303

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

Accruing restructured loans, including related accrued interest, decreased $54 during 2009 primarily as a result of repayments. The 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. Restructured loans do not include loans on which extensions or other non-monetary concessions have been granted, or restructured loans on which monetary concessions have been granted but which remain in nonaccrual status.

High risk asset volume is anticipated to remain flat to slightly higher during 2010.

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 Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

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

	2009	2008	2007
Acceptable	**94.00%**	95.71%	95.63%
OAEM	**4.26%**	1.50%	2.27%
Substandard	**1.74%**	2.79%	2.10%
Total	**100.00%**	100.00%	100.00%

During 2009, overall credit quality improved. However, recent economic conditions have created challenges for some borrowers. Loans classified as “Acceptable” and “OAEM” were 98.26% at December 31, 2009 and 97.21% at December 31, 2008. Loan volume classified as OAEM increased primarily due to the reclassification of the large poultry producer previously discussed from substandard to OAEM. During 2009, a few large cattle loans were downgraded to OAEM or substandard. We had no loans classified as Doubtful or Loss for any of the three years presented. With our borrowers’ generally strong financial positions and the continued emphasis on sound underwriting standards, the credit quality of our loan portfolio remains strong. 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. While credit quality is anticipated to remain sound in 2010, we expect that the less favorable economic conditions and less government support programs will lead to a weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased, however, remained at a low level of 1.19% at December 31, 2009, compared with 0.04% at December 31, 2008.

Allowance for Loan Losses

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

	2009	2008	2007
Balance at beginning of year	**$ 2,069**	$ 1,523	$ 1,620
Charge-offs:			
Production and intermediate-term	**997**	14	16
Recoveries:			
Production and intermediate-term	**1**	–	81
Agribusiness	**–**	1,631	–
Net charge-offs/(recoveries)	**996**	(1,617)	(65)
Provision for loan losses/(Loan loss reversal)	**921**	(1,071)	(162)
Balance at December 31	**$ 1,994**	$ 2,069	$ 1,523
Net charge-offs/(recoveries) to average net loans	**0.30%**	(0.58%)	(0.03%)

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

	2009	2008	2007
Real estate mortgage	**$ 230**	$ 207	$ 338
Production and intermediate-term	**1,704**	1,815	1,179
Agribusiness	**57**	46	4
Rural residential real estate	**3**	1	2
Total	**$ 1,994**	$ 2,069	$ 1,523

The allowance for loan losses decreased $75 from December 31, 2008, to $1,994 at December 31, 2009. The decrease in allowance for loan losses was primarily due to charge-offs partially offset by the provision for loan losses. Provision for loan losses was recorded primarily due to the $983 partial charge-off of two livestock related loans. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

	2009	2008	2007
Allowance as a percentage of:			
Loans	**0.58%**	0.64%	0.60%
Impaired loans	**54.50%**	36.97%	36.81%
Nonaccrual loans	**58.72%**	38.26%	40.67%

Allowance as a percentage of nonaccrual loans increased 20.46% primarily due to the reduction in nonaccrual volume from year-end 2008 to year-end 2009.

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and constructive credit and related services to young, beginning and small (YBS) farmers and ranchers. We continually strive 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. The FCA regulatory definitions for YBS farmers and ranchers are shown below.

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

The following table outlines our percentage of YBS loans as a percentage of our loan portfolio (by number) as of December 31. The USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2007 USDA Agricultural Census, which is the most current data available. A loan may be included in more than one category.

	USDA	**2009**	2008	2007
Young	7.50%	**20.95%**	19.60%	20.02%
Beginning	25.75%	**23.11%**	22.70%	21.38%
Small	92.48%	**63.32%**	64.66%	65.52%

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

- 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.

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

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

	New Lending		**Total Portfolio**	
	Goal	**Actual**	**Goal**	**Actual**
Young	$ 5,830	$ 10,558	$ 49,500	$ 60,064
Beginning	$ 8,300	$ 7,653	$ 70,675	$ 71,916
Small	$ 14,675	$ 19,280	$ 124,675	$ 127,601

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 developed and utilized to determine an applicant’s operational, financial, and management resources available for repaying debt within the terms of the note or 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 25% of our permanent capital. Through lending delegations, AgBank further restricts individual lending limits to one borrower to 15% of permanent capital; exceptions must be reported to AgBank. Within these parameters, we set our own lending limits to manage loan concentration risk. Lending limits are 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 of the credit staff member. Larger and more complex loans 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. Production and intermediate-term lending accounts for most of the remaining volume and is also typically secured. Collateral evaluations are made within 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 Combined System Risk Model (Model) which is a two-dimensional risk rating system that estimates each loan’s probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model is utilized in loan and portfolio management processes. It is also used in allowance for loan losses estimates, as it contains much more portfolio granularity, particularly related to acceptable loan classification under the UCS. The Model's 14-point scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category. In addition, this Model serves as the basis for economic capital modeling.

RESULTS OF OPERATIONS

Earnings Summary

In 2009, we recorded net income of $2,877, compared with $5,431 in 2008, and $3,993 in 2007. The decrease in 2009 was primarily due to an increase in provision for loan losses and a decrease in patronage distributions from AgBank. The following table presents the changes in the significant components of net income from the previous year.

	2009 vs. 2008	2008 vs. 2007
Net income, prior year	**$ 5,431**	$ 3,993
Increase/(Decrease) from changes in:		
Interest income	**(450)**	1,298
Interest expense	**1,223**	374
Net interest income	**773**	1,672
Provision for loan losses	**(1,992)**	909
Noninterest income	**(1,176)**	(122)
Noninterest expense	**(122)**	(1,013)
Provision for income taxes	**(37)**	(8)
Total (decrease)/increase in net income	**(2,554)**	1,438
Net income, current year	**$ 2,877**	$ 5,431

Return on average assets was 0.82% in 2009, 1.81% in 2008 and 1.59% in 2007. Return on average shareholders' equity was 4.26% in 2009, 8.18% in 2008 and 6.34% in 2007. The decrease in these ratios was primarily due to the decrease in net income.

Net Interest Income

Net interest income for 2009 was $9,380, compared with $8,607 for 2008 and $6,935 for 2007. The table below provides an analysis of the individual components of the change in net interest income during 2009 and 2008.

	2009 vs. 2008	2008 vs. 2007
Net interest income, prior year	**$ 8,607**	$ 6,935
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(3,333)**	(2,554)
Interest rates paid	**2,669**	2,289
Volume of interest-bearing assets and liabilities	**1,101**	1,275
Interest income on nonaccrual loans	**336**	662
Increase in net interest income	**773**	1,672
Net interest income, current year	**$ 9,380**	$ 8,607

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		
	2009	2008	2007
Net interest margin	**2.84%**	3.05%	2.96%
Interest rate on:			
Average loan volume	**5.33%**	6.40%	7.17%
Average debt	**2.98%**	4.15%	5.40%
Interest rate spread	**2.35%**	2.25%	1.77%

The increase in interest rate spread resulted from a 107 basis point decrease in interest rate on average loan volume and a 117 basis point decrease in interest rates on average debt. Interest rate spread increased primarily due to our decision to maintain variable interest rates during 2009. The spread was negatively impacted by an increase charged by AgBank of 10 basis points effective July 1, 2009. The decrease in net interest margin was primarily due to lower earnings on own capital.

Provision for Loan Losses/(Loan Loss Reversals)

We review 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 necessary based on our assessment of the probable losses in our loan portfolio. We recorded a net provision for loan losses of $921 in 2009, compared with net loan loss reversals of $1,071 in 2008 and $162 in 2007. The provision for loan losses recorded during 2009 was primarily due to the partial charge-offs of two livestock related loans, which were offset by adjustments due to improved credit quality. The loan loss reversal recorded in 2008 was primarily due to a large recovery from a previously charged-off loan.

Noninterest Income

During 2009, we recorded noninterest income of $541, compared with $1,717 in 2008 and $1,839 in 2007. Patronage distributions from AgBank are our primary source of noninterest income. Beginning in 2009, patronage from AgBank, except for certain priority patronage, is to be paid annually rather than quarterly. As a result, our patronage was significantly reduced in 2009, compared with 2008 and 2007. Patronage received was $152 in 2009, $1,268 in 2008, and $1,481 in 2007. All patronage was paid in cash. Noninterest income also includes loan fees, financially related services income and other noninterest income.

Noninterest Expense

Noninterest expense for 2009, increased $122, or 2.05%, to $6,065 compared with 2008. Significant components of noninterest expense for each of the three years ended December 31 are compared in the following table.

				Percent of Change	
	2009	2008	2007	**2009/2008**	2008/2007
Salaries & employee benefits	**$ 3,148**	$ 2,883	$ 2,356	**9.19%**	22.37%
Occupancy & equipment	**339**	417	397	**(18.71%)**	5.04%
Purchased services from AgVantis	**365**	324	288	**12.65%**	12.50%
Supervisory & examination costs	**105**	93	91	**12.90%**	2.20%
Other	**1,530**	1,807	1,460	**(15.33%)**	23.77%
Total operating expense	**5,487**	5,524	4,592	**(0.67%)**	20.30%
Farm Credit Insurance Fund premium	**578**	419	338	**37.95%**	23.96%
Total noninterest expense	**$ 6,065**	$ 5,943	$ 4,930	**2.05%**	20.55%

For the year ended December 31, 2009, total operating expense decreased $37, or 0.67%, compared with the year ended December 31, 2008. The decrease was primarily related to expenses recognized in 2008 related to the opening of the Elk City office and a concentrated effort to reduce expenses during 2009. Offsetting the decrease was an increase in salaries and employee benefits of $265 due to an increase in the number of employees and normal merit increases. Insurance Fund premium increased $159 to $578 due to an increase in the premium rate and an increase in volume. As of July 1, 2008, the Farm Credit System Insurance Corporation began charging premiums based on debt rather than loan volume. Rates were increased to 20 basis points during 2009 compared with 15 basis points on debt for the third quarter of 2008 and 18 basis points for the fourth quarter of 2008. Rates were 15 basis points on average loan volume during the first six months of 2008 and during 2007. During 2010, the Insurance Fund premium is anticipated to decrease.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Obligations that require liquidity include paying our note with AgBank, funding loans and other commitments, and funding 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 AgBank, cash on hand and loan repayments provide adequate liquidity to fund our on-going operations and other commitments. Even with the volatility in the financial markets, we anticipate liquidity levels will be adequate to meet our obligations.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for operations through a borrowing relationship with AgBank. Our note payable to AgBank is collateralized by a pledge to AgBank 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). The GFA is subject to renewal at its expiration date of April 30, 2012 in accordance with normal business practices. The annual average principal balances of the note payable to AgBank were $274,091 in 2009, $224,998 in 2008 and $179,310 in 2007.

We plan to continue to fund lending operations through the utilization of our borrowing relationship with AgBank, retained earnings from current and prior years and from borrower stock investment. AgBank'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 have experienced significant volatility, we have been able to obtain sufficient funding to support our lending and business operations.

Interest Rate Risk

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

Our ESMP commitment balance and the average interest rate as of December 31 in the various maturities are reflected below:

	2009		2008		2007	
	Balance	**Average Rate**	Balance	Average Rate	Balance	Average Rate
Maturing in 1 year or less	**$ –**	**–**	$ 1,000	5.30%	$ 1,000	5.43%
Maturing in 1 to 3 years	**2,200**	**1.88%**	–	–	1,000	5.30%
Total	**$ 2,200**	**1.88%**	$ 1,000	5.30%	$ 2,000	5.36%

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 AgBank; 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 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, 2009 totaled $68,015, compared with $66,074 at December 31, 2008 and $62,683 at December 31, 2007. Capital includes stock purchased by our borrowers and retained earnings accumulated through net income less patronage distributed to borrowers. Our capital position is reflected in the following ratio comparisons.

	2009	2008	2007
Debt to shareholders' equity	**4.30:1**	4.17:1	3.35:1
Shareholders' equity as a percent of loans	**19.84%**	20.47%	24.63%
Shareholders' equity as a percent of assets	**18.85%**	19.34%	23.00%

Debt to shareholders' equity increased and shareholders' equity as a percent of loans and of total assets decreased from 2008 to 2009 primarily due to increased loan volume and the corresponding debt to finance the loans.

Retained Earnings

Our retained earnings increased $1,879 to $66,678 at December 31, 2009 from $64,799 at December 31, 2008. The increase was a result of net income of $2,877, partially offset by $1,000 of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, this includes increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid patronage of $1,998 in 2009, $2,003 in 2008 and $1,953 in 2007. All patronage paid for these years were paid in cash.

Stock

Our total stock increased $62 to $1,337 at December 31, 2009, from $1,275 at December 31, 2008. The increase was due to $210 of stock issuances, partially offset by $148 of stock retirements. We require a stock investment for each borrower. The current initial investment requirement is the lesser of $1,000 or 2.00% of the amount of the borrower's combined loan volume.

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	**2009**	2008	2007
Permanent capital ratio	7.00%	**17.05%**	18.95%	23.14%
Total surplus ratio	7.00%	**16.67%**	18.56%	22.64%
Core surplus ratio	3.50%	**16.67%**	18.56%	21.72%

As of December 31, 2009, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2010. The decrease in the capital ratios was primarily due to the increase in average loan volume. 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, 2009, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

REGULATORY MATTERS

As of December 31, 2009, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

On October 31, 2007, the Farm Credit Administration published an advance notice of proposed rulemaking in the Federal Register with respect to the consideration of possible modifications to the Farm Credit Administration's risk-based capital rules for Farm Credit System institutions that are similar to the standardized approach delineated in the Basel II Framework. The Farm Credit Administration requested comments to facilitate the development of a proposed rule that would enhance its regulatory capital framework and more closely align minimum capital requirements with risks taken by System institutions. Comments on the advance notice of proposed rulemaking were due no later than December 31, 2008. FCA action is planned for the second quarter of 2010.

On June 16, 2008, the Farm Credit Administration published a proposed rule in the Federal Register that would authorize Banks, Associations or service corporations to invest in rural communities, i.e., communities that have fewer than 50,000 residents and are outside of an urbanized area, under certain conditions. The proposed rule would authorize two types of rural community investments: (1) investment in debt securities that would involve projects or programs that benefit the public in rural communities, and (2) equity investment in venture capital funds, which funds create economic opportunities and jobs in rural communities by providing capital to small or start-up businesses. Under the proposed rule, these investments would be limited to 150% of the institution's total surplus. The comment period closed August 15, 2008. Final action is planned for the second quarter of 2010.

GOVERNANCE

Board of Directors

We are governed by a nine member board that oversees the management of our Association. Of these directors, 8 are elected by the shareholders and 1 is appointed by the elected directors. The 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;
- establishes the strategic plan and approves the annual operating plan and budget;
- oversees the lending operations;
- advises and counsels management on significant issues we face; 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 service 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 is responsible for assisting the Board. The Committee is composed of 4 members. During 2009, 4 meetings were held. The Audit Committee responsibilities 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 and auditing matters.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Committee is composed of the full Board. The Committee annually reviews and evaluates the compensation policies and plans for senior officers and employees and approves the overall compensation program 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 following is a summary of certain critical policies.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable 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 historic 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 and projected 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 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.

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REPORT OF MANAGEMENT

The financial statements of Farm Credit of Western Oklahoma, ACA) (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2009 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 assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, U.S. AgBank, FCB's Risk Management staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as appropriate. The financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

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

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

Steve Semmel
Chairman of the Board

John Grunewald
President and Chief Executive Officer

Jamie Shirkey
Chief Financial Officer

March 12, 2009

Farm Credit
OF WESTERN OKLAHOMA

Our roots run deep.

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes 4 members from the Board of Directors of Farm Credit of Western Oklahoma, ACA (Association). In 2009, 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 2009.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2009 were $16,825 for audit services and $5,900 for tax services.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's financial statements for the year ended December 31, 2009 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2009.

LaVern W. Phillips

LaVern W. Phillips, Chairman of the Audit Committee

Audit Committee Members
Jimmie Purvine
Ronald W. White
Steve Semmel

March 12, 2010

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2009	2008	2007
ASSETS			
Loans	**$ 342,780**	$ 322,796	$ 254,541
Less allowance for loan losses	**1,994**	2,069	1,523
Net loans	**340,786**	320,727	253,018
Cash	**2,844**	5,635	4,788
Accrued interest receivable	**4,697**	4,596	4,575
Investment in U.S. AgBank, FCB	**9,614**	7,805	7,410
Premises and equipment, net	**1,873**	1,963	1,994
Prepaid benefit expense	**708**	630	518
Deferred tax asset	**-**	54	72
Other assets	**232**	203	207
Total assets	**$ 360,754**	$ 341,613	$ 272,582
LIABILITIES			
Note payable to U.S. AgBank, FCB	**$ 285,135**	$ 265,083	$ 197,853
Advance conditional payments	**2,358**	2,797	2,907
Accrued interest payable	**3,177**	4,705	6,241
Patronage distributions payable	**1,000**	2,000	2,003
Accrued benefits liability	**162**	179	239
Other liabilities	**907**	775	656
Total liabilities	**292,739**	275,539	209,899
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	**9**	10	29
Capital stock	**1,328**	1,265	1,286
Unallocated retained earnings	**66,678**	64,799	61,368
Total shareholders' equity	**68,015**	66,074	62,683
Total liabilities and shareholders' equity	**$ 360,754**	$ 341,613	$ 272,582

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

Consolidated Statement of Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2009	2008	2007
INTEREST INCOME			
Loans	**$ 17,625**	$ 18,075	$ 16,777
Total interest income	**17,625**	18,075	16,777
INTEREST EXPENSE			
Note payable to U.S. AgBank, FCB	**8,183**	9,376	9,755
Other	**62**	92	87
Total interest expense	**8,245**	9,468	9,842
Net interest income	**9,380**	8,607	6,935
Provision for loan losses/(Loan loss reversal)	**921**	(1,071)	(162)
Net interest income after provision for loan losses/(loan loss reversal)	**8,459**	9,678	7,097
NONINTEREST INCOME			
Financially related services income	**269**	299	248
Loan fees	**27**	62	37
Patronage distribution from U.S. AgBank, FCB	**152**	1,268	1,481
Other noninterest income	**93**	88	73
Total noninterest income	**541**	1,717	1,839
NONINTEREST EXPENSE			
Salaries and employee benefits	**3,148**	2,883	2,356
Occupancy and equipment	**339**	417	397
Purchased services from AgVantis, Inc.	**365**	324	288
Farm Credit Insurance Fund premium	**578**	419	338
Supervisory and examination costs	**105**	93	91
Other noninterest expense	**1,530**	1,807	1,460
Total noninterest expense	**6,065**	5,943	4,930
Income before income taxes	**2,935**	5,452	4,006
Provision for income taxes	**58**	21	13
Net income	**$ 2,877**	$ 5,431	$ 3,993

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2006	$ 37	$ 1,282	$ 59,374	$ 60,693
Net income			3,993	3,993
Stock converted	(5)	5		-
Stock issued	-	205		205
Stock retired	(3)	(206)		(209)
Patronage distributions:				
Cash			(2,003)	(2,003)
Other			4	4
Balance at December 31, 2007	29	1,286	61,368	62,683
Net income			5,431	5,431
Stock issued	-	147		147
Stock retired	(19)	(168)		(187)
Patronage distributions: Cash			(2,000)	(2,000)
Balance at December 31, 2008	10	1,265	64,799	66,074
Net income			2,877	2,877
Stock issued	-	210		210
Stock retired	(1)	(147)		(148)
Patronage distributions:				
Cash			(1,000)	(1,000)
Other			2	2
Balance at December 31, 2009	**$ 9**	**$ 1,328**	**$ 66,678**	**$ 68,015**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 2,877**	$ 5,431	$ 3,993
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**254**	257	246
Provision for loan losses/(Loan loss reversal)	**921**	(1,071)	(162)
Gains on sales of premises and equipment	**(12)**	(18)	(8)
Change in assets and liabilities:			
Decrease in deferred tax asset	**54**	18	9
(Increase)/Decrease in accrued interest receivable	**(101)**	(21)	253
(Increase)/Decrease in prepaid benefit expense	**(78)**	(112)	226
(Increase)/Decrease in other assets	**(29)**	4	(15)
(Decrease)/Increase in accrued interest payable	**(1,528)**	(1,536)	884
Decrease in accrued benefits liability	**(17)**	(60)	(170)
Increase in other liabilities	**132**	119	21
Total adjustments	**(404)**	(2,420)	1,284
Net cash provided by operating activities	**2,473**	3,011	5,277
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(20,980)**	(66,638)	(39,112)
Increase in investment in U.S. AgBank, FCB	**(1,809)**	(395)	-
Expenditures for premises and equipment, net	**(152)**	(208)	(133)
Net cash used in investing activities	**(22,941)**	(67,241)	(39,245)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to U.S. AgBank, FCB	**20,052**	67,230	36,120
(Decrease)/Increase in advance conditional payments	**(439)**	(110)	626
Protected borrower stock retired	**(1)**	(19)	(3)
Capital stock retired	**(147)**	(168)	(206)
Capital stock issued	**210**	147	205
Cash patronage distributions paid	**(1,998)**	(2,003)	(1,953)
Net cash provided by financing activities	**17,677**	65,077	34,789
Net (decrease)/increase in cash	**(2,791)**	847	821
Cash at beginning of year	**5,635**	4,788	3,967
Cash at end of year	**$ 2,844**	$ 5,635	$ 4,788
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 9,773**	$ 11,004	$ 8,958
Income taxes	**$ 6**	$ 2	$ 7
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Protected borrower stock converted to capital stock	**$ -**	$ -	$ 5
Net charge-offs/(recoveries)	**$ 996**	$ (1,617)	$ (65)
Patronage distributions payable	**$ 1,000**	$ 2,000	$ 2,003

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit of Western Oklahoma, ACA and its subsidiaries, Farm Credit of Western Oklahoma, FLCA, (Federal Land Credit Association) (FLCA)) and Farm Credit of Western Oklahoma, PCA, (Production Credit Association (PCA)), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Beaver, Beckham, Cimarron, Custer, Dewey, Ellis, Harper, Roger Mills, Texas, Washita, Woods and Woodward in the state of Oklahoma.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). The most recent significant amendment of the Farm Credit Act was the Agricultural Credit Act of 1987. At December 31, 2009, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and approximately 90 associations.

U.S. AgBank, FCB (AgBank), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. AgBank provides the majority of 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 AgBank and certain associations. On December 31, 2009, the District consisted of AgBank, 24 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), two FLCAs and AgVantis.

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and/or AgBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (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 has been required to pay premiums into the Insurance Fund based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as two percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines is actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, but it still must ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount. AgBank passes this premium expense through to the Association based on the Association's average adjusted note payable with AgBank.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association also offers credit life insurance, livestock risk insurance, multi-peril crop and crop hail insurance, and provides additional services to borrowers such as appraisals and an investment bond program.

The Association's financial condition may be impacted by factors affecting AgBank. Certain District expenses are allocated to the associations. Disclosure of certain accounting policies related to these costs is included in the U.S. AgBank District Annual Report to Shareholders (District's Annual Report). The District's Annual Report is available free of charge on AgBank's website, www.usagbank.com; or may be obtained at no charge by contacting the Association at 3302 Williams Avenue, Woodward, Oklahoma 73801 or calling (580) 256-3465 or (800) 299-3465. Association shareholders will be provided with a copy of the District's Annual Report, which includes the combined financial statements of AgBank and its related associations, and AgVantis, upon request. The District's Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities by the Insurance Corporation.

The lending and financial services offered by AgBank are described in Note 1 of the District's Annual Report.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform with 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 management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes as applicable. Actual results may differ from these estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. Beginning in 2008, Farm Credit Foundations began providing our human resource services previously provided by AgBank. These services are reflected in other noninterest expense.

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.

A. Recently Issued or Adopted Accounting Pronouncements: In June 2009, the Financial Accounting Standards Board (FASB) issued, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." This Codification became the source of authoritative U.S. generally accepted accounting principles recognized by the FASB. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This Statement was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Association adopted the codification in the third quarter of 2009 with no impact on the Association's financial statements, but resulted in changes to disclosures.

   In May 2009, the FASB issued guidance on "Subsequent Events" which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009. The adoption of this guidance had no impact on the Association's financial statements, but did result in additional disclosure.

   In April 2009, the FASB issued guidance on "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It was effective for interim periods ending after June 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The adoption did not have a material impact on the Association.

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

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. 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 instrument 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 as the result of past due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. 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 investment asset balance (if accrued in prior years).

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which 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 payments are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified Doubtful or Loss. Loans are charged-off at the time they are determined to be uncollectible.

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 based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. It is based on estimates, appraisals and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals and evaluations to change.

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

D. Investment in AgBank: The Association's investment in AgBank is in the form of Class A Stock. The minimum required investment in AgBank is 5.00 percent of average direct loan volume, net of excess investment. The required investment will be adjusted on a quarterly basis to reflect changes in direct loan volume. The required investment may consist of AgBank surplus attributed to the Association, patronage based stock and purchased stock.

E. 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. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements are capitalized.

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

G. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. Amounts received on short- and intermediate-term loans are recorded in the Consolidated Statement of Condition as liabilities and represent borrower payments in excess of the related loan balance or amounts to which the borrower has unrestricted access. A limited amount of funds, reserved for future loan repayments and placed in trust fund accounts, is permitted on long-term loans. These amounts are netted against loans on the Consolidated Statement of Condition. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

H. Employee benefit plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. Detailed financial information for the Pension Plan may be found in the District's Annual Report. The Pension Plan was closed to new participants beginning January 1, 2007, amended and then terminated during 2007 for those participants with benefits only in the Account Balance Provisions of the Pension Plan. The accrued benefits for these participants were distributed from the Pension Plan and were transferred to the 401(k) Plan. The Association matches a certain percentage of employee contributions to the 401(k) Plan. The 401(k) Plan costs are expensed monthly as funded.

   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. Prior to 2007, only employees who were hired before 2004 could become eligible for employer subsidies under the Retiree Medical Plan. These benefits and the anticipated costs of these benefits were accrued during the period of the employee's active service. During 2007, the Retiree Medical Plan was amended to only continue employer subsidized benefits for current retirees. Accrued balances as of September 30, 2007 for eligible employees were converted to present value and transferred to the Pension Plan as an additional pension benefit.

I. Patronage Distribution from AgBank: Patronage distributions are made by AgBank annually, except for certain priority patronage. The Association records patronage distributions from AgBank upon receipt of the distribution.

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

   The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the consolidated financial statements and tax bases of assets and liabilities. In addition, 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, that 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.

   The Association has not provided deferred income taxes on amounts allocated to the Association which relate to AgBank'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 AgBank's post-1992 unallocated earnings. AgBank currently has no plans to distribute unallocated AgBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

K. Fair Value Measurement: The FASB 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 that relate to deferred compensation and supplemental retirement plans. 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets include loans and other property owned.

The fair value disclosures are reported in Note 14.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2009	2008	2007
Real estate mortgage	**$ 205,981**	$ 196,023	$ 163,534
Production and intermediate-term	**128,676**	121,036	87,870
Agribusiness:			
Cooperatives	**3,069**	1,395	–
Processing and marketing	**2,700**	2,145	1
Farm related business	**375**	750	1,144
Rural residential real estate	**1,979**	1,447	1,992
Total loans	**$ 342,780**	$ 322,796	$ 254,541

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	December 31					
	2009		2008		2007	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Beef	**$ 207,861**	**60.64%**	$ 201,618	62.46%	$ 121,186	47.61%
Wheat	**41,408**	**12.08%**	37,993	11.77%	30,494	11.98%
Cash Grain/Corn/Sorghum	**35,889**	**10.47%**	37,606	11.65%	26,116	10.26%
Dairy	**12,409**	**3.62%**	6,004	1.86%	815	0.32%
Hogs	**7,096**	**2.07%**	3,906	1.21%	4,073	1.60%
Landlords	**5,313**	**1.55%**	5,068	1.57%	2,011	0.79%
Hay	**4,525**	**1.32%**	4,713	1.46%	1,833	0.72%
Peanuts/Cotton/Peppers/Watermelon	**3,291**	**0.96%**	6,069	1.88%	7,509	2.95%
Poultry	**3,085**	**0.90%**	4,487	1.39%	1,324	0.52%
Other	**21,903**	**6.39%**	15,332	4.75%	59,180	23.25%
Total	**$ 342,780**	**100.00%**	$ 322,796	100.00%	$ 254,541	100.00%

In 2007, loans to rural residents and part-time farmers were reported in the group "Other" but have been re-categorized based on the primary agriculture product produced.

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 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.

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		
	2009	2008	2007
Nonaccrual loans:			
Current as to principal and interest	**$ 2,991**	$ 5,408	$ 3,303
Past due	**405**	–	442
Total nonaccrual loans	**3,396**	5,408	3,745
Impaired accrual loans:			
Restructured accrual loans	**135**	189	392
Accrual loans 90 days or more past due	**128**	–	–
Total impaired accrual loans	**263**	5,597	4,137
Total impaired loans	**$ 3,659**	$ 5,597	$ 4,137

There were no material commitments to lend additional funds to debtors whose loans were classified impaired at December 31, 2009.

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 and average impaired loans.

	Year Ended December 31		
	2009	2008	2007
Interest income recognized on:			
Nonaccrual loans	**$ 336**	$ 662	$ 82
Accrual loans 90 days or more past due	**18**	9	6
Restructured accrual loans	**9**	15	32
Interest income recognized on impaired loans	**$ 363**	$ 686	$ 120
Average impaired loans	**$ 5,578**	$ 3,231	$ 4,221

The following table presents information concerning impaired loans.

	December 31		
	2009	2008	2007
Impaired loans with related allowance	**$ –**	$ –	$ 561
Impaired loans with no related allowance	**3,659**	5,597	3,576
Total impaired loans	**$ 3,659**	$ 5,597	$ 4,137
Allowance on impaired loans	**$ –**	$ –	$ 111

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		
	2009	2008	2007
Interest income which would have been recognized under the original loan terms	**$ 777**	$ 421	$ 448
Less: interest income recognized	**345**	677	114
Interest income not recognized/(recognized)	**$ 432**	$ (256)	$ 334

A summary of the changes in the allowance for loan losses follows.

	2009	2008	2007
Balance at beginning of year	**$ 2,069**	$ 1,523	$ 1,620
Charge-offs:			
Production and intermediate-term	**997**	14	16
Recoveries:			
Production and intermediate-term	**1**	–	81
Agribusiness	**–**	1,631	–
Net charge-offs/(recoveries)	**996**	(1,617)	(65)
Provision for loan losses/(Loan loss reversal)	**921**	(1,071)	(162)
Balance at December 31	**$ 1,994**	$ 2,069	$ 1,523
Net charge-offs/(recoveries) to average net loans	**0.30%**	(0.58%)	(0.03%)

A breakdown of the allowance for loan losses follows.

	December 31					
	2009		2008		2007	
	Amount	**Percent**	Amount	Percent	Amount	Percent
Real estate mortgage	**$ 230**	**11.53%**	$ 207	10.01%	$ 338	22.19%
Production and intermediate-term	**1,704**	**85.46%**	1,815	87.72%	1,179	77.42%
Agribusiness	**57**	**2.86%**	46	2.22%	4	0.26%
Rural residential real estate	**3**	**0.15%**	1	0.05%	2	0.13%
Total	**$ 1,994**	**100.00%**	$ 2,069	100.00%	$ 1,523	100.00%

Credit guarantees with government agencies of approximately $14,484 at year-end 2009, $13,630 at year-end 2008 and $10,535 at year-end 2007 were outstanding.

NOTE 4 – INVESTMENT IN AGBANK

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

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2009	2008	2007
Land	**$ 145**	$ 145	$ 145
Buildings and leasehold improvements	**2,428**	2,428	2,428
Furniture, equipment and automobiles	**1,376**	1,371	1,231
	3,949	3,944	3,804
Less: accumulated depreciation	**2,076**	1,981	1,810
Total	**$ 1,873**	$ 1,963	$ 1,994

NOTE 6 – NOTE PAYABLE TO AGBANK

The Association's indebtedness to AgBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for a $295 million line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2009. Substantially all borrower loans are match-funded with AgBank. Payments and disbursements are made on the note payable to AgBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by AgBank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.99 percent for the year ended December 31, 2009. The line of credit expires on April 30, 2010; however, the Association expects renewal of the line of credit. Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire. So long as the Association is not in material default under the GFA, AgBank will continue to make advances (that do not exceed the amount payable under the promissory note) for undisbursed outstanding commitments on borrower loans which are not in default. The note payable to AgBank will continue until it has been fully discharged.

The Association has the opportunity to commit funds with AgBank in the Earnings Stabilization Management Program at a fixed rate for a specified timeframe. Participants in the program receive a fixed rate credit on the committed funds balance classified as a reduction of interest expense. These committed funds, which are netted against the note payable to AgBank, as of December 31, follow.

	2009	2008	2007
Committed funds	**$ 2,200**	$ 1,000	$ 2,000
Average rates	**1.88%**	5.30%	5.36%

Under the Farm Credit Act, the Association is obligated to borrow only from AgBank, unless AgBank gives approval to borrow elsewhere. AgBank, 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, 2009, the Association's notes payable are within the specified limitations.

NOTE 7 – SHAREHOLDERS' EQUITY

A description of the Association's capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities is provided below.

A. Protected Borrower Stock

Protection of certain borrower 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 that which was outstanding as of January 6, 1988, or was issued or allocated prior to October 6, 1988. If an association is unable to retire protected stock at par value or stated value, the amounts required to retire this stock would be obtained from the Insurance Fund.

B. Capital Stock

In accordance with the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. 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.

The borrower acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. The Association retains a first lien on the stock owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan cannot automatically result in retirement of the corresponding stock.

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet this 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 prescribed capital standards are met. The FCA regulations also require that additional minimum standards for capital be achieved. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of risk-adjusted assets of 3.50 percent. At December 31, 2009, the Association's permanent capital was 17.05 percent, total surplus was 16.67 percent and core surplus ratio was 16.67 percent.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. 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, 2009. 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, 262,143 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, 3,467 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 AgBank 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 AgBank) - Issued only to AgBank in consideration of financial assistance to the Association from AgBank. Retirement is at the sole discretion of the Board of Directors.

Class F — Common Stock (Voting, protected, 1,641 shares outstanding) - Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.

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

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $1,998 in 2009, $2,003 in 2008 and $1,953 in 2007 and declared a $1,000 patronage in 2009 to be distributed in 2010.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, 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.

The Association allocated 34.20 percent of its patronage-sourced net income to its patrons. 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.

NOTE 8 – PATRONAGE DISTRIBUTION FROM AGBANK

The patronage distribution from AgBank was distributed in cash. Patronage paid by AgBank to the Association during 2009 was $152, $1,268 in 2008 and $1,481 in 2007.

NOTE 9 – INCOME TAXES

The provision for/(benefit from) income taxes follows.

	Year Ended December 31		
	2009	2008	2007
Current:			
Federal	**$ 3**	$ 1	$ 4
State	**1**	1	–
Deferred:			
Federal	**42**	16	8
State	**12**	3	1
Provision for income taxes	**$ 58**	$ 21	$ 13

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

	Year Ended December 31		
	2009	2008	2007
Federal tax at statutory rate	**$ 998**	$ 1,854	$ 1,361
State tax, net	**8**	3	1
Effect of non-taxable FLCA subsidiary	**(830)**	(1,664)	(1,249)
Change in valuation allowance	**(76)**	(159)	(112)
Prior year return to provision difference	**(42)**	(2)	(4)
Other	–	(11)	16
Provision for income taxes	**$ 58**	$ 21	$ 13

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2009	2008	2007
Deferred income tax assets:			
Allowance for loan losses	**$ 321**	$ 338	$ 370
Write down of other property	**–**	–	31
Nonaccrual loan interest	**51**	33	101
Depreciation	**35**	34	33
Charitable contribution carryover	**40**	40	40
Net operating loss carryforward	**24**	162	230
Gross deferred tax assets	**471**	607	805
Deferred tax asset valuation allowance	**(448)**	(530)	(711)
Deferred income tax liabilities:			
Sale of fixed assets	**(3)**	(3)	(4)
Depletion	**(20)**	(20)	(18)
Gross deferred tax liability	**(23)**	(23)	(22)
Net deferred tax asset	**$ –**	$ 54	$ 72

The calculation of tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. The Association recorded a valuation allowance of $448 during 2009, $530 during 2008 and $711 during 2007. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions to be recognized as of December 31, 2009, 2008 or 2007. The tax years that remain open for federal and major state income tax jurisdictions are 2006 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

The employees of the Association may participate in the District's defined benefit pension plan (Pension Plan). The Pension Plan is noncontributory and covers a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plan, the Association funded $289 for 2009 and $290 for 2008 through its note payable to AgBank. The Pension Plan required no funding during 2007. Pension Plan expenses included in salaries and employee benefits expense were $211 for 2009, $178 for 2008, and $227 for 2007. As of January 1, 2007, the Pension Plan was closed to new participants. During 2007, those participants with benefits only in the Account Balance provisions of the Pension Plan were spun off into a separate pension plan, which was then terminated. The termination resulted in immediate expense recognition of $53 by the Association for its proportional share which is included in the above Pension Plan expenses. Additional financial information for the Pension Plan may be found in the District's Annual Report.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were expense of $13 for 2009, $12 for 2008 and income of $130 for 2007. During 2008, the life insurance benefit in the plan was funded by a one-time buy-out contribution with an insurance company resulting in income recognition of $4 and additional cash contributions of $30. Prior to 2007, only employees who were hired before 2004 could become eligible for employer subsidies under the Retiree Medical Plan. As of September 30, 2007, the Retiree Medical Plan was amended to only continue employer subsidized benefits for current retirees. Accrued balances as of September 30 for eligible employees were converted to present value and transferred to the Pension Plan as an additional pension benefit. This amendment and termination of benefits resulted in the immediate recognition of income of $168 by the Association for its proportional share which is included in the above Postretirement benefits expense. Additional financial information for this plan may be found in the District's Annual Report.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Association matches a certain percentage of employee contributions to the plan. Employer contributions to this plan were $166 in 2009, $145 in 2008 and $96 in 2007.

NOTE 11 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association may enter 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 other persons.

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 or employment.

Loan information to related parties at December 31 is shown below.

	2009	2008	2007
New loans	**$ 15,761**	$ 22,796	$ 11,722
Repayments	**$ 16,317**	$ 21,382	$ 10,565
Ending balance	**$ 6,512**	$ 10,637	$ 8,554

In the opinion of management, none of these loans outstanding at December 31, 2009 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $365 in 2009, $324 in 2008 and $288 in 2007 to AgVantis for technology services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend 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. 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, 2009, $78,235 of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments 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 credit to satisfy the financing needs of their borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2009, the Association had $73 million of standby letters of credit.

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

NOTE 14 – FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 2 for additional information.

The Association has no assets or liabilities measured at fair value on a recurring basis at December 31, 2009.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2009 for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			**Total Fair Value**	**Total Losses**
	Level 1	**Level 2**	**Level 3**		
Assets:					
Loans	$ –	$ –	$ 3,284	$ 3,284	$ 983

Valuation Techniques

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

Loans

For certain loans evaluated for impairment, the fair value was based upon the underlying collateral as these were 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.

NOTE 15 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of the Association's financial instruments at December 31, 2009, 2008 and 2007. Quoted market prices are generally not available for certain financial instruments, as described below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

	December 31					
	2009		2008		2007	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	**$ 340,786**	**$ 343,406**	$ 320,727	$ 325,960	$ 253,018	$ 255,644
Cash	**$ 2,844**	**$ 2,844**	$ 5,635	$ 5,635	$ 4,788	$ 4,788
Financial liabilities:						
Note payable to AgBank	**$ 285,135**	**$ 288,294**	$ 265,083	$ 270,574	$ 197,853	$ 200,775
Advance conditional payments	**$ 2,358**	**$ 2,358**	$ 2,797	$ 2,797	$ 2,907	$ 2,907

A description of the methods and assumptions used to estimate the fair value of each class of the Association's financial instruments for which it is practicable to estimate the value follows.

A. Loans: Because no active market exists for the Association's 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. Since the discount rates are based on the Association's loan rates as well as management estimates, management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale.

For purposes of determining 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.

B. Cash: The carrying value is a reasonable estimate of fair value.

C. Note payable to AgBank: 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.

D. Advance conditional payments: The carrying value is a reasonable estimate of fair value.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2009, 2008 and 2007, follow.

	2009				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 2,207**	**$ 2,267**	**$ 2,330**	**$ 2,576**	**$ 9,380**
Provision for loan losses/(Loan loss reversal)	**697**	**(83)**	**(214)**	**521**	**921**
Noninterest expenses, net	**1,397**	**1,314**	**1,240**	**1,631**	**5,582**
Net income	**$ 113**	**$ 1,036**	**$ 1,304**	**$ 424**	**$ 2,877**

	2008				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,026	$ 1,930	$ 2,529	$ 2,122	$ 8,607
(Loan loss reversal)/Provision for loan losses	(1,761)	114	(207)	783	(1,071)
Noninterest expenses, net	897	1,083	1,116	1,151	4,247
Net income	$ 2,890	$ 733	$ 1,620	$ 188	$ 5,431

	2007				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,766	$ 1,708	$ 1,703	$ 1,758	$ 6,935
(Loan loss reversal)/Provision for loan losses	(604)	462	(13)	(7)	(162)
Noninterest expenses, net	724	816	695	869	3,104
Net income	$ 1,646	$ 430	$ 1,021	$ 896	$ 3,993

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 12, 2010, which is the date the financial statements were available to be issued.

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows present fairly, in all material respects, the financial position of Farm Credit of Western Oklahoma, ACA and subsidiaries (the Association) at December 31, 2009, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 12, 2010

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

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

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

Description of Property

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

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

Legal Proceedings and Enforcement Actions

Information required to be disclosed in this section is incorporated herein by reference from Note 12 to the financial statements, "Regulatory Enforcement Matters," and Note 13 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

Description of Capital Structure

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

Description of Liabilities

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 6 to the financial statements, "Note Payable to AgBank," 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,” to the financial statements, 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, 2009, required to be disclosed in this section is incorporated herein by reference from the “Five-Year Summary of Selected Consolidated Financial Data,” included in this annual report to shareholders.

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS

Steve Semmel - Chairman. Mr. Semmel was elected to the board in May 2003. For the past five years he has been involved in the following agricultural enterprises: wheat and hay production, improved grasses, cow/calf, stocker and feedlot cattle. He owns an interest in the Woodward NAPA, an auto parts store; and OK Rental Equipment, a generator and light tower rental business. Mr. Semmel is treasurer for the Woodward Elks Rodeo, past director of the Northwest District – Oklahoma Cattlemen’s Association and is past president of Northwest Oklahoma Cattlemen’s Association. His term expires in 2012.

Jimmie Purvine - Vice Chairman. Mr. Purvine was elected to the board in May 2005. For the past five years, he has been involved in the following agricultural enterprises: wheat, milo, soybeans, corn, silage, beans, cow/calf and stockers. He is a former county committee member for Dewey Farm Service Agency and for the past three years has been a Board Member of the Dewey County Conservation District. His term expires in 2011.

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 in Kenton. His term expires in 2011.

Ken Gore - Director. Mr. Gore has been a member of the board since November 1997. For the past five years he has been involved in the following agricultural enterprises: wheat, hay production, cow/calf, stockers and taking cattle in on a gain basis. His term expires in 2010.

James E. Hardy - Director. Mr. Hardy has been a member of the board since September 1986. For the past five years he has been involved in wheat and hay production, cow/calf, registered Angus cattle and stocker cattle. For the past 5½ years he has been the Activities Officer II at the William S. Key Correctional Facility, a minimum security prison. His term expires in 2011.

Kenton Javorsky - Director. Mr. Javorsky was appointed by the Board in November, 2009, to fill the position previously held by Clint Roush. For the past five years he has been involved in the following agricultural enterprises: wheat, cotton, milo, cow-calf, custom cotton harvesting. He is a President of Welderson Farms Inc, a family farming operation; a board member of Midwest Farmer’s Coop, a cotton gin, feed, fertilizer and fuel coop; and board chairman of the Western Oklahoma Christian School, a private elementary school in Clinton. His term will expire in 2010.

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: alfalfa hay, wheat, cotton, milo, corn and stocker cattle. He is owner of Musick Farms, a family farming operation and an order buyer for Eastern Livestock; owner of Musick and Varner Funeral Home, LLC, a funeral home business located in Cordell and Sentinel. He is

President of Oklahoma Wheat Growers, Chairman of Washita County Health Board, and is a member of and was Chairman of the U.S. AgBank, FCB Stockholders Advisory Council until October, 2009. His term expires in 2010.

LaVern Phillips - Appointed Director. Mr. Phillips served as appointed director on the board since February 1996. For the past five years he has been employed by Woodward Industrial Foundation, an economic development business, and serves on the Health Services Foundation, an assisted living provider. His term expires in 2012.

Ronald W. White - Director. 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, wheat, milo, cow/calf and stocker cattle. He has worked part-time as a real estate appraiser, is the owner of R & K Trailers LLC, which leases livestock trailers to Brent White Transportation LLC, and is a director of Tri County Electric, a provider of electric power for the 3 panhandle counties. His term expires in 2012.

Clint Roush - Director. Mr. Roush was a member of the board from June 1988 to October 2009. Mr. Roush was elected to the U.S. AgBank Board of Directors and was thus required to resign from the Association's Board of Directors. For the past five years he has been involved in the following agricultural enterprises: wheat, alfalfa hay, cotton and stocker and feeder cattle. He is president of Clint Roush Farms, Inc., a family farm corporation and manager of Roush Minerals, LLC, an oil and gas mineral ownership and management firm. He is also a Director and President of the Board of Directors for the Farmers Cooperative in Clinton, a grain and farm supply co-op.

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.

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.

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.

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

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $400 per day, $150 for conference calls and were reimbursed mileage at the rate of $0.55 per mile, plus $20 per hour driving time.

The Compensation and Audit committees were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings. However, two additional Audit committee meetings were held. Compensation for those meetings was $400 per day and $150 for conference call, plus $20 per hour driving time.

Additional information for each director is provided below:

Name	Number of Days Served at Board Meetings	Number of Days Served at Other Official Activities	Compensation for Board Meetings and Other Official Duties	Compensation for Audit Committee	Total Compensation Paid During 2009
Steve Semmel	9	12	$ 7,400	$ 1,700	$ 9,100
Jimmie Purvine	9	14	7,280	2,250	9,530
Bobbie L. Apple	9	20	13,560	–	13,560
Ken Gore	9	10	7,210	630	7,840
James E. Hardy	9	4	5,720	–	5,720
Kenton Javorsky	2	–	800	–	800
Jimmie Musick	8	14	9,640	–	9,640
LaVern Phillips	9	10	5,480	2,230	7,710
Clint E. Roush	6	16	8,340	590	8,930
Ronald W. White	9	14	7,600	2,310	9,910
Total Compensation			$ 73,030	$ 9,710	$ 82,740

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 $71,084 in 2009, $85,335 in 2008 and $85,536 in 2007. There was no non-cash compensation paid to directors as a group during 2009.

Required senior officer compensation information is included in the Association's Annual Meeting Information Statement (AMIS) mailed to all shareholders. The AMIS is available for public inspection at the Association office. Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included, is available and will be disclosed to shareholders upon request.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 11 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

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

RELATIONSHIP WITH U.S. AGBANK, FCB (AGBANK)

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

The Association's statutory obligation to borrow from AgBank is discussed in Note 6. Financial assistance agreements between the Association and AgBank are discussed in Note 7. Association requirement to invest in AgBank and AgBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in AgBank." AgBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

AgBank is required to distribute its Annual Report to shareholders of the Association if a "significant event," as defined by FCA regulations occurs.

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.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2010, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

AGBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of AgBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with AgBank's 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. The reports may also be obtained free of charge by visiting AgBank's website at www.usagbank.com.