

ANNUAL REPORT

2023



Farm Credit
WESTERN OKLAHOMA

WWW.FARMCREDITLOANS.COM

Five-Year Summary of Selected Consolidated Financial Data (Unaudited)

(Dollars in Thousands)

	December 31				
	2023	2022	2021	2020	2019
Statement of Condition Data					
Loans	\$ 1,780,560	\$ 1,589,950	\$ 1,296,546	\$ 938,660	\$ 881,012
Less allowance for loan losses	2,477	1,838	1,822	1,827	1,862
Net loans	1,778,083	1,588,112	1,294,724	936,833	879,150
Investment in CoBank, ACB	42,653	43,963	39,139	30,828	28,474
Other assets	79,803	62,854	48,889	33,938	33,216
Total assets	\$ 1,900,539	\$ 1,694,929	\$ 1,382,752	\$ 1,001,599	\$ 940,840
Obligations with maturities of one year or less	\$ 41,813	\$ 41,021	\$ 31,583	\$ 17,917	\$ 14,688
Obligations with maturities longer than one year	1,529,296	1,335,580	1,109,279	805,810	756,048
Reserve for unfunded commitments	931	653	545	518	445
Total liabilities	1,572,040	1,377,254	1,141,407	824,245	771,181
Capital stock	2,884	2,897	2,433	2,058	2,026
Additional paid-in capital	146,592	146,592	81,946	33,619	33,619
Unallocated retained earnings	180,939	169,046	157,147	141,994	134,095
Accumulated other comprehensive income/(loss)	(1,916)	(860)	(181)	(317)	(81)
Total shareholders' equity	328,499	317,675	241,345	177,354	169,659
Total liabilities and shareholders' equity	\$ 1,900,539	\$ 1,694,929	\$ 1,382,752	\$ 1,001,599	\$ 940,840

	For the Year Ended December 31				
	2023	2022	2021	2020	2019
Statement of Income/(Expense) Data					
Net interest income	\$ 49,759	\$ 36,819	\$ 34,207	\$ 23,578	\$ 22,104
Patronage distribution from Farm Credit institutions	7,914	6,454	5,490	3,395	2,856
(Provision for credit losses)/Credit loss reversal	(936)	(68)	2,909	(76)	71
Noninterest expense, net	(31,762)	(21,481)	(21,751)	(15,741)	(12,955)
Provision for income taxes	(4)	(25)	(2)	(7)	(2)
Net income	\$ 24,971	\$ 21,699	\$ 20,853	\$ 11,149	\$ 12,074
Comprehensive income	\$ 23,915	\$ 21,020	\$ 20,989	\$ 10,913	\$ 12,039

Key Financial Ratios**For the Year**

Return on average assets	1.40%	1.54%	1.61%	1.15%	1.35%
Return on average shareholders' equity	7.57%	8.22%	8.83%	6.36%	7.22%
Net interest income as a percentage of average earning assets	2.97%	2.78%	2.82%	2.60%	2.64%
Net charge-offs/(recoveries) as a percentage of average net loans	0.01%	<(0.01%)	(0.24%)	<0.01%	<0.01%

At Year End

Shareholders' equity as a percentage of total assets	17.28%	18.74%	17.45%	17.71%	18.03%
Debt as a ratio to shareholders' equity	4.79:1	4.34:1	4.73:1	4.65:1	4.55:1
Allowance for loan losses as a percentage of loans	0.14%	0.12%	0.14%	0.19%	0.21%
Common equity tier 1 (CET1) capital ratio	17.21%	17.96%	16.76%	16.58%	16.96%
Tier 1 capital ratio	17.21%	17.96%	16.76%	16.58%	16.96%
Total regulatory capital ratio	17.39%	18.12%	16.97%	16.85%	17.23%
Tier 1 leverage ratio	16.42%	16.82%	15.51%	15.63%	16.02%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	16.26%	16.64%	16.99%	17.16%	17.34%
Permanent capital ratio	17.23%	17.98%	16.79%	16.62%	16.99%

Net Income Distribution

Cash patronage distributions paid	\$ 9,800	\$ 6,900	\$ 3,860	\$ 3,500	\$ 2,750
Cash patronage declared	\$ 13,000	\$ 9,800	\$ 5,700	\$ 3,250	\$ 3,500

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA (Association) for the year ended December 31, 2023. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes, and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Merger with Farm Credit of Enid, ACA
- Merger with AgPreference, ACA
- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Human Capital
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.fcwestok.com, or upon request. We are located at 3302 Williams Avenue, Woodward, Oklahoma 73801-6944 or may be contacted by calling (580) 256-3465 or (800) 299-3465.

MERGER WITH FARM CREDIT OF ENID, ACA

On November 1, 2022, Farm Credit of Enid, ACA was merged into Farm Credit of Western Oklahoma, ACA. The merger successfully united two outstanding organizations and created a financial institution of greater capital, capacity, and human resources to serve agriculture and rural Oklahoma. The merged Association is conducting business under the name of Farm Credit of Western Oklahoma, ACA (Western Oklahoma) and is headquartered in Woodward, Oklahoma. The merged Association encompasses the territories previously served by the separate Associations. See Note 1 for a list of counties served. For purposes of this management discussion and analysis, unless otherwise noted, references to "the Association" represents Farm Credit of Western Oklahoma, ACA from a current, historical, and future perspective.

Beginning on November 1, 2022, our balance sheet, income statement, average balances, and related percentages include the effects of the merger with Farm Credit of Enid, ACA. Prior year results do not reflect the impact of this merger. Upon the closing of the merger, loans increased by \$251.4 million, assets increased by \$269.8 million, liabilities increased by \$204.9 million, and shareholders' equity increased by \$64.9 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

MERGER WITH AGPREFERENCE, ACA

On January 1, 2021, AgPreference, ACA was merged into Farm Credit of Western Oklahoma, ACA. The merged Association is conducting business under the name of Farm Credit of Western Oklahoma, ACA (Western Oklahoma) and is headquartered in Woodward, Oklahoma. The merged Association encompasses the territories previously served by the separate Associations. For purposes of this management discussion and analysis, unless otherwise noted, references to “the Association” represents Farm Credit of Western Oklahoma, ACA from a current, historical, and future perspective.

Beginning in 2021, our balance sheet, income statement, average balances, and related percentages include the effects of the merger with AgPreference, ACA. Results prior to 2021 do not reflect the impact of this merger. Upon the closing of the merger, loans increased by \$244.9 million, assets increased by \$261.7 million, liabilities increased by \$213.0 million, and shareholders' equity increased by \$48.7 million. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2023, we are one of 56 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine, and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region from the Black Mesa in the northwest part of the Panhandle in Cimarron County to southwest Oklahoma. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents, and agribusinesses, and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit and term life insurance, advance conditional payment accounts, vehicle and equipment leasing through Farm Credit Leasing, and fee appraisals. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 3302 Williams Avenue, Woodward, Oklahoma 73801-6944 or by calling (580) 256-3465 or (800) 299-3465. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for several Farm Credit institutions, provides administration for our payroll and benefits and may provide related human resource offerings.

ECONOMIC OVERVIEW

Although commodity prices were volatile in 2023, loan demand has been strong and opportunities for profitability have been present throughout our loan portfolio. During 2023, our customers have had opportunities to forward price grain/cattle at profitable levels, but the volatility and increases in the cost of production have negatively impacted operations across the agricultural industry.

With historically low unemployment and strong demand for labor, off-farm income is providing healthy diversification to our customer base. Most of our lending territory has received ample moisture over the last few months and both topsoil and subsoil moisture conditions are rated as adequate on most land throughout the state. According to USDA, growing crop conditions in Oklahoma are predominantly fair to good, with some room for improvement.

With the current economic stress affecting rural America, the uncertainty of continued strength in the value of agricultural real estate is an economic concern, but average real estate values in Oklahoma are showing signs of improvement. Given the current environment, it will be important to continue to evaluate the sustainability of this market strength over time. USDA National Agricultural Statistics indicate that Oklahoma farm real estate values increased by 8.89% in 2023, however the continuation of Oklahoma real estate appreciation remains in question given the other factors previously mentioned. Future land value studies will indicate to what level the current stress in the agricultural economy is influencing land values across the region.

Our Association continues to analyze the material effects of transition risks related to climate change that may affect our business, financial condition, and results of operations. These risks include policy and regulatory changes that could impose operational and compliance burdens, market trends that may alter business opportunities, credit risks, litigation risks, and technological changes. Agricultural producers continue to adjust to changing climate conditions and have implemented additional practices of no-till planting, minimal till practices, cover crops, and other water conservation techniques to manage reduced amounts of rainfall and to keep their farmland in a state of sustainable production. Currently, we are not aware of any specific material impacts on our business, results of operations, or financial conditions from the effects of climate change transition risks.

While the U.S. economy has continued to grow stronger in 2023, supply chain disruptions, labor shortages, fuel prices, inflation, rising interest rates, weather related events, global conflicts, and recession pressures remain a concern. The steady strengthening of labor markets and increased consumer spending through 2023 have led to economic growth. The rural economy continues to benefit from the strong U.S. economy, driving higher levels of spending and investment by businesses and consumers. Most agricultural commodity prices have remained strong despite some decline from the sharp increases in 2022. The Russia/Ukraine conflict has also impacted certain agricultural commodity prices and created additional volatility and uncertainty in the markets. Although inflation has declined through the year, the Fed has indicated that it will continue to fight inflationary pressure with restrictive monetary policies. Interest rates were raised several times in 2023 from 4.25-4.50% to 5.25-5.50%, increasing the cost of borrowed capital. However, in December 2023, the Fed indicated that they plan to reduce borrowing costs in 2024.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This Farm Bill governs an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development, and foreign and domestic food programs for five years through 2023. On November 16, 2023, an extension of the Farm Bill was signed that allowed certain authorized programs to continue through September 30, 2024. The Farm Bill continues to provide support for crop insurance and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations. The Farm Bill also clarifies the Farm Credit System Insurance Corporation's (FCSIC) authority, role, and procedures for acting as a conservator or receiver of a troubled System institution. The Farm Bill provides a range of statutory options to the Insurance Corporation including, but not limited to, marshalling and liquidating assets, satisfying claims of creditors, and using interim devices such as bridge banks.

LOAN PORTFOLIO

Total loans outstanding were \$1.78 billion at December 31, 2023, an increase of \$190.6 million, or 12.0%, from loans at December 31, 2022. The increase in loans was due to customer demands and marketing efforts throughout the lending territory. The increase in 2022 was significantly impacted by the merger with Farm Credit of Enid, ACA. The production and intermediate-term portfolio experienced the most growth in volume year-over-year. The types of loans outstanding at December 31 are reflected in the following table.

<i>(dollars in thousands)</i>	2023		2022		2021	
	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage	\$ 1,131,210	63.5%	\$ 1,081,515	68.0%	\$ 887,949	68.5%
Production and intermediate-term	448,728	25.2%	388,699	24.5%	332,191	25.6%
Agribusiness	125,192	7.0%	73,316	4.6%	60,643	4.7%
Rural infrastructure	65,916	3.8%	38,092	2.4%	11,963	0.9%
Agricultural export finance	7,455	0.4%	6,809	0.4%	2,000	0.2%
Rural residential real estate	2,059	0.1%	1,519	0.1%	1,800	0.1%
Total	\$ 1,780,560	100.0%	\$ 1,589,950	100.0%	\$ 1,296,546	100.0%

Real estate mortgage loans outstanding increased from year-end 2022 to year-end 2023 primarily due to increased marketing efforts for new and existing business relationships. Long-term mortgage loans are primarily used to purchase, refinance, or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. The average loan to appraised value of the mortgage loan portfolio is less than 50%, and under our current underwriting standards, we lend less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased from year-end 2022 to year-end 2023 primarily due to increased marketing efforts and higher production and operating costs. Production loans are used to finance the ongoing operating needs of agricultural producers and generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following the harvest or the sale of livestock. Loan balances tend to increase again in the spring and throughout the rest of the year as borrowers fund operating needs and/or purchase livestock.

Increases were also noted in agribusiness and rural infrastructure loan volume, where the majority of loan volume was due to loan participations. Additionally, at December 31, 2023 approximately 18.1% of real estate mortgage loans, 15.4% of production and intermediate-term loans, 72.5% of agribusiness loans, 100% of rural infrastructure loans, and 100% of agricultural export finance loan volume were a result of loan participations purchased.

Portfolio Diversification

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

We purchase loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established.

Our volume of participations purchased and sold as of December 31 follows.

<i>(dollars in thousands)</i>	2023	2022	2021
Participations purchased	\$ 438,139	\$ 326,708	\$ 214,140
Participations sold	\$ 12,845	\$ 15,436	\$ 27,580

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

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

	2023	2022	2021
Alfalfa	2.28%	1.99%	–
Beaver	1.81%	1.98%	1.77%
Beckham	1.49%	1.36%	1.78%
Caddo	4.62%	4.96%	5.80%
Cimarron	1.09%	1.15%	1.52%
Cleveland	0.72%	0.75%	0.90%
Comanche	1.95%	2.08%	2.86%
Cotton	1.27%	1.20%	1.29%
Custer	2.99%	2.78%	4.49%
Dewey	2.41%	2.70%	3.32%
Ellis	1.26%	1.54%	1.94%
Garfield	2.68%	3.20%	–
Grady	3.22%	3.29%	3.37%
Grant	1.93%	2.18%	–
Greer	0.46%	0.57%	0.65%
Harmon	1.22%	1.36%	1.17%
Harper	2.11%	2.14%	2.80%
Jackson	1.54%	2.01%	2.38%
Kiowa	2.23%	2.54%	3.20%
Major	1.55%	1.80%	–
McClain	1.48%	1.53%	1.79%
Roger Mills	1.14%	1.36%	2.06%
Texas	3.75%	3.80%	4.31%
Tillman	1.91%	2.28%	2.88%
Washita	2.98%	3.08%	3.48%
Woods	5.52%	5.91%	6.19%
Woodward	3.84%	3.87%	5.17%
Other – Oklahoma	5.40%	6.27%	8.72%
Other – Oklahoma Participations	1.57%	1.72%	1.50%
Other – Kansas	5.78%	5.61%	5.40%
Other – Kansas Participations	5.00%	5.42%	4.99%
Other – Texas	6.22%	3.97%	4.28%
Other – Illinois Participations	2.11%	1.82%	1.60%
Other	14.47%	11.78%	8.39%
Total	100.00%	100.00%	100.00%

The merger with Farm Credit of Enid, ACA is the primary reason for the change in the geographic distribution of loans by county from 2021 to 2022. The increase in the “Other” category in 2022 was also impacted primarily by the purchased participations acquired as a result of the merger with Farm Credit of Enid, ACA.

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

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

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

SIC Category	December 31		
	2023	2022	2021
Beef	52.18%	53.67%	56.69%
Cash Grain/Corn/Sorghum/Soybeans	14.78%	15.75%	15.79%
Wheat	6.65%	7.27%	5.18%
Peanuts/Cotton/Peppers/Watermelon	4.94%	5.64%	5.83%
Landlords	3.78%	4.52%	3.99%
Ag Services	2.79%	2.38%	4.14%
Telephone Communications	1.98%	1.99%	–
Dairy	1.85%	1.86%	2.16%
Hay	1.07%	1.19%	1.09%
Farm Products Warehousing and Storage	0.92%	–	–
Timber Tracts	0.78%	–	–
Other	8.28%	5.73%	5.13%
Total	100.00%	100.00%	100.00%

Our loan portfolio contains a concentration of beef and cash grain producers. The largest concentration is beef which is characteristic of our territory and is expected to remain our largest commodity concentration. Cash grain/corn/sorghum/soybeans is our second largest commodity and obviously complements beef producers as a source of feed grains and pasture for grazing cattle. The merger with Farm Credit of Enid, ACA was the primary reason for the shift in commodity concentration. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral, which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers, which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy.

The loans outstanding at December 31, 2023 for loans \$250 thousand or less accounted for 20.9% of loan volume and 74.7% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

(dollars in thousands)	2023		2022		2021	
	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
\$1 - \$250	\$ 372,473	4,692	\$ 363,062	4,570	\$ 310,805	3,779
\$251 - \$500	276,418	794	265,109	756	213,515	607
\$501 - \$1,000	301,024	431	290,386	413	227,844	328
\$1,001 - \$5,000	656,957	341	559,086	293	428,258	222
\$5,001 - \$25,000	173,688	23	112,307	15	116,124	14
Total	\$ 1,780,560	6,281	\$ 1,589,950	6,047	\$ 1,296,546	4,950

As of December 31, 2023, approximately 6.0% of our loans outstanding is attributable to 10 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac credit enhancements was \$44.7 million at December 31, 2023, \$47.1 million at December 31, 2022, and \$42.3 million at December 31, 2021. Included in other

operating expenses, were fees paid for these Farmer Mac commitments totaling \$237 thousand in 2023, \$213 thousand in 2022, and \$220 thousand in 2021. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan, and the commitment remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Credit guarantees with government agencies of \$121.3 million at year-end 2023, \$121.6 million at year-end 2022, and \$107.1 million at year-end 2021 were outstanding. The utilization of credit guarantees with governmental agencies is a practical risk mitigation tool used principally to reinforce our Young, Beginning, and Small Farmer Program.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower if there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2023.

<i>(dollars in thousands)</i>	Due 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Commitments to extend credit	\$ 166,545	\$ 175,798	\$ 39,584	\$ 20,649	\$ 402,576
Standby letters of credit	2,057	3,667	114	–	5,838
Total commitments	\$ 168,602	\$ 179,465	\$ 39,698	\$ 20,649	\$ 408,414

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. We consider potential losses related to unfunded commitments, and a reserve for unfunded commitments is included in the liabilities section of the Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, accruing loans 90 days or more past due, and other property owned. Accrued interest on all accruing loans at December 31, 2023 has been excluded from the amortized cost of loans and reported separately in the Consolidated Statement of Condition. Comparative information regarding nonperforming assets in the portfolio follows:

<i>(dollars in thousands)</i>	2023	2022	2021
Nonaccrual loans	\$ 5,274	\$ 10,500	\$ 4,901
Accruing loans 90 days past due	171	666	–
Accruing restructured loans	–	–	157
Total nonperforming assets ¹	\$ 5,445	\$ 11,166	\$ 5,058

¹ Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and nonperforming accruing loans were presented with accrued interest receivable.

We had no other property owned for the years presented.

Total nonperforming assets decreased 51.2% at December 31, 2023 compared with year-end 2022. The reduction in nonperforming assets was largely due to improved credit quality in our portfolio.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased from December 31, 2022 due to payoffs and pay downs. Additionally, contributing to the decrease was a participation loan complex charged off in 2023. The increase compared with December 31, 2021 is primarily due to loans moving from accrual to nonaccrual status.

Accruing loans 90 days past due decreased from December 31, 2022. At December 31, 2023, all accruing 90 day past due loan volume was attributed to one loan.

Nonperforming asset volume is anticipated to increase in the future due to ongoing stress in the agriculture economy.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Following are the classification definitions.

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

	2023	2022 ¹	2021 ¹
Acceptable	96.83%	97.35%	95.75%
OAEM	2.49%	1.59%	3.02%
Substandard	0.68%	1.06%	1.23%
Total	100.00%	100.00%	100.00%

¹ Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.

During 2023, overall credit quality improved. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio.

Allowance for Loan Losses

Effective January 1, 2023, we adopted Accounting Standards Update (ASU) 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (CECL). This guidance established a single allowance framework for all financial assets measured at amortized cost and certain off-balance sheet credit exposures, and replaced the incurred loss guidance. This framework requires that management's estimate reflects credit losses over the asset's remaining expected life and considers expected future changes in macroeconomic conditions. The allowance for credit losses comprises the allowance for loan losses and the allowance for unfunded commitments.

After adoption of this guidance, the allowance for credit losses takes into consideration relevant information about past events, current conditions, and macroeconomic forecasts of future conditions. An economic scenario is considered over a reasonable and supportable forecast period, after which, the framework incorporates historical loss experience. Final loss estimates also consider factors affecting credit losses not reflected in the scenario, due to the unique aspects of current conditions and expectations. These factors may include, but are not limited to, lending policies, portfolio concentrations, regulatory guidance, and/or lags in economic forecast information.

As a result of adoption of this guidance, the allowance for loan losses increased by \$77 thousand and the reserve for unfunded commitments increased by \$1 thousand. The increase in the allowance for loan losses is largely due to the requirement of the standard to estimate losses to the assets' contractual maturities, resulting in increases in allowance attributable to our production and intermediate-term and rural infrastructure portfolios. Partially offsetting the increase is a decrease in allowance attributable to our other loan portfolios. Additional information related to the adoption of this new guidance is included in Note 2 to the accompanying Consolidated Financial Statements.

For periods prior to January 1, 2023, we maintained an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. The following table provides relevant information regarding the allowance for loan losses as of December 31 for the last three fiscal years.

<i>(dollars in thousands)</i>	2023	2022	2021
Balance at beginning of year	\$ 1,838	\$ 1,822	\$ 1,827
Cumulative effect of CECL adoption	77		
Balance at January 1	\$ 1,915		
Charge-offs:			
Production and intermediate-term	103	–	–
Recoveries:			
Production and intermediate-term	6	56	2,931
Net charge-offs/(recoveries)	97	(56)	(2,931)
Provision for loan losses/(Loan loss reversal)	659	(40)	(2,936)
Balance at December 31	\$ 2,477	\$ 1,838	\$ 1,822
Net charge-offs/(recoveries) to average net loans	0.01%	<(0.01%)	(0.24%)

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

<i>(dollars in thousands)</i>	2023	2022	2021
Real estate mortgage	\$ 231	\$ 502	\$ 514
Production and intermediate-term	1,042	1,139	1,164
Agribusiness	651	117	116
Rural infrastructure	551	77	21
Agricultural export finance	1	1	1
Rural residential real estate	1	2	6
Total	\$ 2,477	\$ 1,838	\$ 1,822

The allowance for loan losses increased from December 31, 2022 to December 31, 2023 predominantly due to the provision for loan losses totaling \$659 thousand that was recorded primarily as a result of loan volume growth. This was further impacted by the increase in the specific reserve due primarily to the downgrade of one credit complex. Net charge-offs of \$97 thousand were recorded during 2023. The charge-offs were due primarily to participation loans made to a dairy farm complex. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2022, our allowance for loan losses increased from 2021 primarily due to the increase in impaired loans in 2022, substantially offset by improved credit quality in our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2023	2022	2021
Allowance for loan losses as a percentage of:			
Loans	0.14%	0.12%	0.14%
Nonperforming loans ¹	45.49%	16.46%	36.02%
Nonaccrual loans	46.97%	17.50%	37.18%

¹ Prior to the adoption of CECL on January 1, 2023, nonperforming loans included accruing restructured loans.

The increase in allowance for loan losses as a percentage of nonperforming and nonaccrual loans increased due to a large nonaccrual loan complex which was paid off during 2023. This loan complex accounted for approximately 40% of the total nonaccrual loan volume in the portfolio as of year-end 2022.

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

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

<i>(dollars in thousands)</i>	2023	2022	2021
Balance at beginning of year	\$ 653	\$ 545	\$ 518
Cumulative effect of CECL adoption	1		
Balance at January 1	654		
Provision for reserve for unfunded commitments	277	108	27
Total	\$ 931	\$ 653	\$ 545

The increase in provision for reserve for unfunded commitments in 2023 is due to increased risk in certain commitments.

Young, Beginning, and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning, and small (YBS) farmers and ranchers. Our mission is to develop business relationships with young, beginning, and small farmers and ranchers who exhibit the management skills necessary to build a solid financial position, have viable operations, contribute to the agricultural community, and become profitable customers. 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.

On October 12, 2023, FCA issued a final rule to revise the YBS regulations. The rule was enacted to expand the YBS activities of Associations to a diverse population of borrowers, reinforce the supervisory responsibilities of the banks that fund the Associations by requiring them to annually review and approve the Associations' YBS programs, and require each Association to enhance the strategic plan for its YBS program. The rule will also change the definition of a Small Farmer from one generating less than \$250 thousand in annual gross sales to generating less than \$350 thousand in annual gross cash farm income. The final rule became effective on January 1, 2024.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2017 USDA Agricultural Census, which was the most current data available at December 31, 2023. While this definition difference does exist, the information is the best comparative information available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	December 31			
	USDA	2023	2022	2021
Young	9.79%	18.56%	18.30%	18.93%
Beginning	29.35%	26.22%	25.86%	25.67%
Small	92.02%	53.40%	53.99%	57.33%

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

- Offer a 1% reduction in the variable interest rate to YBS farmers and ranchers who qualify;
- Continue to enhance both the experiences and learning opportunities available to our YBS Advisory Committee;
- Sponsor awards recognizing outstanding young farm families in our area;
- Award college scholarships to the next generation of potential farmers and ranchers;
- Fund interest-free 4-H and FFA loans to young producers who are working to gain the agricultural knowledge base needed to be successful;
- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

During 2023, our outreach efforts have been successful and have proven to spread the Farm Credit message while working to educate and support the next generation of farmers and ranchers. The Association has continued our Washington D.C. initiative created for select YBS customers or potential customers. This initiative provides the opportunity for our area YBS producers to experience and participate in the political process. Participants in the Washington D.C. initiative meet with representatives of the Oklahoma delegation in the United States Congress and have face-to-face dialogue with leaders of agricultural trade organizations as well as the Farm Credit Administration, the Farm Credit Council, and other decision makers specific to the agricultural industry and the Farm Credit System. We use targeted lending and other outreach programs to further reinforce YBS qualitative and quantitative goals.

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

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

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

<i>(dollars in thousands)</i>	# of YBS Loans		YBS Loan Volume	
	Goal	Actual	Goal	Actual
Young	1,183	1,170	\$ 245,418	\$ 252,926
Beginning	1,673	1,653	\$ 309,204	\$ 318,452
Small	3,492	3,367	\$ 497,497	\$ 485,525

During 2023, we met our loan volume goals for young and beginning farmers and ranchers.

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

CREDIT RISK MANAGEMENT

Participations purchased are a material part of the Association’s loan portfolio. We recognize that there are certain inherent risks associated with participation loans and servicing many of those loans outside the Association’s territory. However, we work to mitigate these risks by using real estate as collateral in many credit relationships, establishing pre-defined hold limits for participations purchased and relying upon underwriting standards with maximum risk thresholds established. The participation portfolio helps to provide strength to the Association by increasing diversity in our loan portfolio by expanding our geographical locations served and broadening the commodity types financed as we work to continue to expand our customer base.

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

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. Our Association's lending and lease limit base is established by our total regulatory capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, and special lending programs. We have adopted an individual lending limit maximum of 10% of lending and lease limit base for our highest quality borrowers.

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

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

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

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

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

RESULTS OF OPERATIONS**Earnings Summary**

In 2023, we recorded net income of \$25.0 million, compared with \$21.7 million in 2022 and \$20.9 million in 2021. The increase in 2023 was primarily due to an increase in net interest income, partially offset by a decrease in noninterest income and increases in provision for credit losses and noninterest expense. The increase in 2022 was due to increases in net interest income and noninterest income, partially offset by a decrease in loan loss reversals and an increase in noninterest expense. The following table presents the changes in the significant components of net income from the previous year.

<i>(dollars in thousands)</i>	2023 vs. 2022	2022 vs. 2021
Net income, prior year	\$ 21,699	\$ 20,853
Increase/(Decrease) from changes in:		
Interest income	40,204	8,741
Interest expense	(27,264)	(6,129)
Net interest income	12,940	2,612
Provision for credit losses	(868)	(2,977)
Noninterest income	(1,419)	4,451
Noninterest expense	(7,402)	(3,217)
Provision for income taxes	21	(23)
Total increase in net income	3,272	846
Net income, current year	\$ 24,971	\$ 21,699

Return on average assets decreased to 1.40% from 1.54% in 2022 and return on average shareholders' equity decreased to 7.57% from 8.22% in 2022, primarily as a result of loan growth and the increase in equity outpacing growth in net income.

Net Interest Income

Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets, and cost of debt. The increase in net interest income from year-end 2022 was largely due to the merger with Farm Credit of Enid, ACA during 2022 and increased net interest margin, partially offset by interest rate spread compression in the portfolio. The following table provides an analysis of the individual components of the change in net interest income during 2023 and 2022.

<i>(dollars in thousands)</i>	2023 vs. 2022	2022 vs. 2021
Net interest income, prior year	\$ 36,819	\$ 34,207
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	19,027	3,580
Interest rates paid	(17,035)	(4,472)
Volume of interest-bearing assets and liabilities	10,500	3,172
Interest income on nonaccrual loans	448	332
Increase in net interest income	12,940	2,612
Net interest income, current year	\$ 49,759	\$ 36,819

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		
	2023	2022	2021
Net interest margin	2.97%	2.78%	2.82%
Interest rate on:			
Average loan volume	5.90%	4.43%	4.11%
Average debt	3.42%	1.92%	1.50%
Interest rate spread	2.48%	2.51%	2.61%

The decrease in interest rate spread resulted from a 150 basis point increase in interest rates on average debt, partially offset by a 147 basis point increase in interest rates on average loan volume. The increase in net interest margin was due to higher earnings on our own capital.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitments is warranted based on our assessment of the relevant historical events, current conditions, and macroeconomic conditions. Prior to the adoption of CECL, we estimated allowance for credit losses based on our assessment of probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net provision for credit losses of \$936 thousand in 2023, compared with net provision for credit losses of \$68 thousand in 2022 and net credit loss reversals of \$2.9 million in 2021. The provision for loan losses of \$659 thousand recorded during 2023 was primarily a result of loan volume growth. This was further impacted by the increase in the specific reserve due to the downgrade of one large credit complex. The provision for reserve for unfunded commitments of \$277 thousand was recorded during 2023 due to increased risk in certain commitments.

The loan loss reversals of \$40 thousand recorded during 2022 were primarily due to improved credit quality. The provision for reserve for unfunded commitments of \$108 thousand was recorded during 2022 due to an increase in loan commitments and increased risk in certain loans.

The loan loss reversals of \$2.9 million recorded during 2021 were due to net recoveries of \$2.9 million which were recorded primarily as the result of life insurance proceeds collected on a previously charged off loan. The provision for reserve for unfunded commitments of \$27 thousand recorded in 2021 was primarily due to loan growth and increased risk on certain loans.

Noninterest Income

During 2023, we recorded noninterest income of \$9.6 million, compared with \$11.0 million in 2022 and \$6.5 million in 2021. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash. The total patronage from CoBank consists of patronage based on our borrowing balance, which is referred to as our direct note patronage. We received 95 basis points on participation loans and 45 basis points on our direct note with CoBank for all other loans. Patronage earned from CoBank was \$7.4 million in 2023, \$6.3 million in 2022, and \$5.5 million in 2021. Patronage income from CoBank includes special cash patronage distributions of \$995 thousand for 2023, \$1.0 million for 2022, and \$1.0 million for 2021 due to CoBank's strong capital levels and financial results.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during the year. Our total notice of allocation was \$475 thousand for 2023, compared with \$134 thousand in 2022. No notice of allocation was received in 2021. The allocation for 2023 includes cash patronage of \$238 thousand with the remainder recorded as an investment in AgVantis and included in other assets on the Consolidated Statement of Condition. The entire patronage allocation for 2022 was recorded as an investment in AgVantis.

We recorded a cash patronage of \$15 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services, which will be paid in the following year. This compares with \$19 thousand recorded in 2022 and 2021. Patronage from Farm Credit Foundations, AgVantis, and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

Mineral income of \$1.0 million was recognized during 2023. Of this amount, quarterly payments totaling \$983 thousand were received from CoBank. Mineral income decreased from \$1.2 million in 2022 and increased from \$691 thousand in 2021. The decrease in 2023 is due to a decrease in the price paid for production.

Noninterest income also includes loan fees, financially related services income, and other noninterest income. Loan fees in 2023 were \$520 thousand, an increase of \$250 thousand from 2022, primarily due to appraisal fee income.

In 2022, we received equity positioning income from CoBank of \$2.8 million due to the transition to a pro-rata equity positioning strategy with CoBank. No such fees were received in 2023 or 2021.

Noninterest Expense

Noninterest expense for 2023 increased \$7.4 million, or 28.5%, to \$33.4 million compared with 2022 and \$10.6 million, or 46.6% compared with 2021. Noninterest expense for each of the three years ended December 31 is summarized as follows:

<i>(dollars in thousands)</i>	Percent of Change				
	2023	2022	2021	2023/2022	2022/2021
Salaries & employee benefits	\$ 18,460	\$ 12,880	\$ 11,981	43.32%	7.50%
Occupancy & equipment	1,306	1,042	997	25.34%	4.51%
Purchased services from AgVantis	4,093	3,652	3,108	12.08%	17.50%
Merger related costs	120	768	232	(84.38%)	231.03%
Supervisory & examination costs	534	402	408	32.84%	(1.47%)
Other	6,630	5,307	4,506	24.93%	17.78%
Total operating expense	31,143	24,051	21,232	29.49%	13.28%
Farm Credit Insurance Fund premium	2,274	1,964	1,440	15.78%	36.39%
Prepayment expense	–	–	126	–	(100.00%)
Total noninterest expense	\$ 33,417	\$ 26,015	\$ 22,798	28.45%	14.11%

For the year ended December 31, 2023, total operating expense increased \$7.1 million, or 29.5%, compared with the year ended December 31, 2022, primarily due to an increase in staff after the merger with Farm Credit of Enid, ACA which impacted salaries and employee benefits and other operating expenses. Insurance fund premium increased \$310 thousand to \$2.3 million at December 31, 2023 primarily due to an increase in our average direct note balance with CoBank year over year. We recorded prepayment fee expense of \$126 thousand in 2021 due to prepayment fees charged by CoBank. These fees were primarily related to loan conversions that resulted from the low interest rate environment in the wake of the COVID-19 pandemic.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which renews annually and matures on May 31, 2024. The annual average principal balance of the note payable to CoBank was \$1.41 billion in 2023, \$1.12 billion in 2022, and \$1.04 billion in 2021.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years, and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Banks Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, at December 31, 2021 we had committed excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP). Beginning February 2022, we committed excess loanable funds with CoBank pro-rata with our loan

portfolio. This program utilizes a percentage of our equity to fund each loan throughout the life of the loan. These programs enable us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

Funds Management

We offer variable, fixed, adjustable, adjustable prime-based, and Secured Overnight Financing Rate (SOFR) rate loans to borrowers. Our Asset/Liability Committee (ALCO) determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

On March 5, 2021, the United Kingdom's Financial Conduct Authority (UKFCA), formally announced that all London Interbank Offered Rate (LIBOR) tenors will either be discontinued or no longer be representative immediately after December 31, 2021. The cessation date for various tenors of LIBOR was later extended to June 30, 2023. As a result, the UKFCA has closely worked with market participants and regulatory authorities around the world to ensure that alternatives to LIBOR are available and that existing contracts can be transitioned onto these alternatives to safeguard financial stability and market integrity.

At December 31, 2023, our Association did not hold any legacy LIBOR indexed loans in our portfolio and these developments did not have a material impact on the Association and our borrowers. We adopted a transition plan to reduce LIBOR exposures and stop the inflow of new LIBOR volume. Management has documented and worked through the LIBOR transition plan with our funding bank and service provider to address the phase out of LIBOR rates, including any updates to processes and loan servicing technology.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2023 totaled \$328.5 million, compared with \$317.7 million at December 31, 2022 and \$241.3 million at December 31, 2021. The increase of \$10.8 million in shareholders' equity reflects net income, partially offset by patronage distributions, net stock retirements, the cumulative effect of CECL adoption, and an increase in accumulated other comprehensive loss. Our capital position is reflected in the following ratio comparisons.

	2023	2022	2021
Debt to shareholders' equity	4.79:1	4.34:1	4.73:1
Shareholders' equity as a percent of net loans	18.47%	20.00%	18.64%
Shareholders' equity as a percent of total assets	17.28%	18.74%	17.45%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2022 primarily due to strong loan growth and patronage distributions.

Retained Earnings

Our retained earnings increased \$11.9 million to \$180.9 million at December 31, 2023 from \$169.0 million at December 31, 2022 and increased \$23.8 million from \$157.1 million at December 31, 2021. The increase in 2023 was primarily a result of net income of \$25.0 million, primarily offset by \$13.0 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of \$9.8 million in 2023, \$5.7 million in 2022, and \$3.9 million in 2021. An additional \$1.2 million was declared by Farm Credit of Enid, ACA, for their stockholders prior to the merger in 2022 and was also paid in 2023. During 2023, we declared patronage distributions of \$13.0 million to be paid in the first quarter of 2024.

Additional Paid-in Capital

As a result of the merger with Farm Credit of Enid, ACA and as required by generally accepted accounting principles, during 2022, we recorded additional paid-in capital of \$64.6 million as a component of shareholders' equity. This represents the difference between the fair value of the net assets acquired and the par value of stock issued in the transaction.

As a result of the merger with AgPreference, ACA and as required by generally accepted accounting principles, during 2021, we recorded additional paid-in capital of \$48.3 million as a component of shareholders' equity. This represents the difference between the fair value of the net assets acquired and the par value of stock issued in the transaction.

Stock

Our total stock decreased \$13 thousand to \$2.9 million at December 31, 2023, from \$2.9 million at December 31, 2022 and increased from \$2.4 million at December 31, 2021. The decrease during 2023 was due to \$221 thousand of stock retirements, partially offset by \$208 thousand of stock issuances. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled \$1.9 million at December 31, 2023, an increase of \$1.1 million compared with year-end 2022 and an increase of \$1.7 million compared with year-end 2021. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive loss.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and,
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities, and other conditions warranting additional capital.

As shown in the following table, at December 31, 2023, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities, and pay preferred stock dividends.

	2023	2022	2021	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	17.21%	17.96%	16.76%	7.00%
Tier 1 Capital ratio	17.21%	17.96%	16.76%	8.50%
Total Capital ratio	17.39%	18.12%	16.97%	10.50%
Tier 1 Leverage ratio	16.42%	16.82%	15.51%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	16.26%	16.64%	16.99%	1.50%
Permanent capital ratio	17.23%	17.98%	16.79%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2023, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

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

On April 14, 2022, the FCA issued a final rule to address changes to its capital regulations and certain other regulations in response to the CECL accounting standard. The regulation reflects the CECL methodology, which revises the accounting for credit losses in accordance with accounting principles generally accepted in the United States of America (GAAP), as well as conforming amendments to the other regulations to accurately reference credit losses. Specifically, the regulation identifies which credit loss allowances under CECL are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's tier 2 capital up to 1.25 percent of the System institution's total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's tier 2 capital. In addition, the regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The final rule was effective on January 1, 2023. The regulation did not have a material impact on our regulatory capital.

HUMAN CAPITAL

As of December 31, 2023, we had 93 employees at our headquarters in Woodward, Oklahoma and at our other branch locations. Our employees have an established foundation and working knowledge of agriculture and the Farm Credit System. Our workforce is approximately 46.2 percent male and 53.8 percent female, with minorities representing approximately 4.3 percent of our associates.

REGULATORY MATTERS

As of December 31, 2023, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

GOVERNANCE

Board of Directors

We are governed by a nineteen member board that provides direction and oversees our management. Of these directors, fifteen are elected by the shareholders and four are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates, and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan, and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with shareholders, and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of six members of the Board of Directors. During 2023, six meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements;
- the establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls, or auditing matters; and,
- oversight of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities.

Risk/Technology Committee

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

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of six members of the Board of Directors. The Committee annually reviews, evaluates, and approves the compensation policies, programs, and plans for senior officers and employees including benefits programs.

Governance Committee

The Governance Committee is responsible for monitoring significant developments in the law, changes in regulation, and enhancements in the practice of corporate governance. The Governance Committee is composed of seven members who work to develop and recommend to the Board changes to corporate governance principles applicable to the Association.

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 Operating Officer, Chief Risk Officer, Chief Financial Officer, Chief Credit Officer, Chief Lending Officer, Chief Participation Officer, Chief Information Officer, Chief Administration Officer, and other Association financial professionals as determined by the CEO, who are instrumental in accomplishing accurate and complete financial reporting;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

Code of Ethics

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

the Standards of Conduct Policies. Likewise, all employees certify compliance with our Code of Ethics on an annual basis.

Whistleblower Program

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

FORWARD-LOOKING INFORMATION

Our discussion contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as “anticipates,” “believes,” “could,” “estimates,” “may,” “should,” and “will,” or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses considering 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 several risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitments

The allowance for loan losses is our best estimate of credit losses over the remaining contractual life of the loans measured at amortized cost and certain off-balance sheet credit exposures as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Additionally, we provide line of credit financing to our customers. We have established a reserve for unfunded commitment to cover expected losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitment is increased through provision for the reserve for unfunded commitments and is decreased through reversals of the reserve for unfunded commitments. Provision for loan losses and provision for reserve for unfunded commitments are referred to as a provision for credit losses on the Consolidated Statement of Comprehensive Income. We determine the allowance for loan losses and the reserve for unfunded commitment based on relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. 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.

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.

Our Association adopted the Financial Accounting Standards Board (FASB) guidance entitled “Measurement of Credit Losses on Financial Instruments” on January 1, 2023. For additional information on our implementation of this guidance, refer to Note 2 Summary of Significant Accounting Policies.

CUSTOMER PRIVACY

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



REPORT OF MANAGEMENT

The consolidated financial statements of Farm Credit of Western Oklahoma, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2023 annual report is consistent with that in the financial statements.

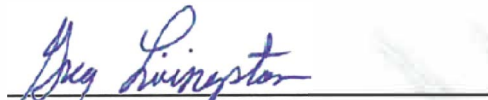
To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged Deloitte Risk and Financial Advisory Committee to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The Association is also examined by the Farm Credit Administration.

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

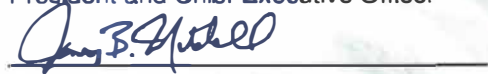
The undersigned certify the Farm Credit of Western Oklahoma, ACA Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Roger Fischer
Chairman of the Board



Greg Livingston
President and Chief Executive Officer



Jamey B. Mitchell, CPA
Chief Financial Officer

March 7, 2024

Lending you can grow on

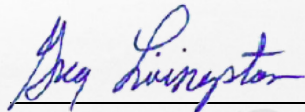


REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

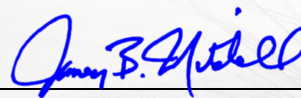
Farm Credit of Western Oklahoma, ACA (Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2023. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2023, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2023.



Greg Livingston
President and Chief Executive Officer



Jamey B. Mitchell, CPA
Chief Financial Officer

March 7, 2024



AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes six members from the Board of Directors of Farm Credit of Western Oklahoma, ACA (Association). In 2023, six 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 2023.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2023 were \$131,400 for audit services, \$18,094 for tax services, \$28,000 for new accounting pronouncement (CECL) audit fees, and \$98,000 for special review and incremental audit fees.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2023 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2023 and for filing with the Farm Credit Administration.

Karen Pittman

Karen Pittman, Chairman of the Audit Committee

Lonnie Olson
Chad Budy
Stephanie Craighead
Lyndal Skaggs
Robert Williams

March 7, 2024

Lending you can grow on



Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Farm Credit of Western Oklahoma, ACA and its subsidiaries (the “Association”), which comprise the consolidated statement of condition as of December 31, 2023, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in shareholders’ equity and cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2023, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 of the consolidated financial statements, the Association changed the manner in which it accounts for the allowance for credit losses in 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association’s ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement



resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2023 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Denver, Colorado
March 7, 2024

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2023	2022	2021
ASSETS			
Loans	1,780,560	\$ 1,589,950	\$ 1,296,546
Less allowance for loan losses	2,477	1,838	1,822
Net loans	1,778,083	1,588,112	1,294,724
Cash	12,199	5,332	8,824
Accrued interest receivable	33,819	25,739	17,865
Investment in CoBank, ACB	42,653	43,963	39,139
Premises and equipment, net	9,860	9,670	6,844
Prepaid benefit expense	10,287	11,259	7,086
Other assets	13,638	10,854	8,270
Total assets	\$ 1,900,539	\$ 1,694,929	\$ 1,382,752
LIABILITIES			
Note payable to CoBank, ACB	\$ 1,524,402	\$ 1,332,337	\$ 1,107,801
Advance conditional payments	13,538	20,188	14,164
Accrued interest payable	4,894	3,243	1,478
Patronage distributions payable	13,000	9,800	5,700
Accrued benefits liability	3,127	1,594	650
Reserve for unfunded commitments	931	653	545
Other liabilities	12,148	9,439	11,069
Total liabilities	\$ 1,572,040	\$ 1,377,254	\$ 1,141,407
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	2,884	2,897	2,433
Additional paid-in capital	146,592	146,592	81,946
Unallocated retained earnings	180,939	169,046	157,147
Accumulated other comprehensive income/(loss)	(1,916)	(860)	(181)
Total shareholders' equity	328,499	317,675	241,345
Total liabilities and shareholders' equity	\$ 1,900,539	\$ 1,694,929	\$ 1,382,752

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2023	2022	2021
INTEREST INCOME			
Loans	\$ 98,837	\$ 58,633	\$ 49,892
Total interest income	98,837	58,633	49,892
INTEREST EXPENSE			
Note payable to CoBank, ACB	48,652	21,694	15,645
Other	426	120	40
Total interest expense	49,078	21,814	15,685
Net interest income	49,759	36,819	34,207
Provision for credit losses/(Credit loss reversal)	936	68	(2,909)
Net interest income after provision for credit losses/credit loss reversal	48,823	36,751	37,116
NONINTEREST INCOME			
Financially related services income	27	15	6
Loan fees	520	270	107
Patronage distribution from Farm Credit institutions	7,914	6,454	5,490
Mineral income	1,016	1,208	691
Equity Positioning income from CoBank	-	2,844	-
Other noninterest income	92	197	243
Total noninterest income	9,569	10,988	6,537
NONINTEREST EXPENSE			
Salaries and employee benefits	18,460	12,880	11,981
Occupancy and equipment	1,306	1,042	997
Purchased services from AgVantis, Inc.	4,093	3,652	3,108
Farm Credit Insurance Fund premium	2,274	1,964	1,440
Merger related costs	120	768	232
Supervisory and examination costs	534	402	408
Prepayment expense	-	-	126
Other noninterest expense	6,630	5,307	4,506
Total noninterest expense	33,417	26,015	22,798
Income before income taxes	24,975	21,724	20,855
Provision for income taxes	4	25	2
Net income	24,971	21,699	20,853
COMPREHENSIVE INCOME			
Amortization of retirement costs	266	41	68
Actuarial (loss)/gain in retirement obligation	(1,322)	(720)	68
Total comprehensive income	\$ 23,915	\$ 21,020	\$ 20,989

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2020	\$ -	\$ 2,058	\$ 33,619	\$ 141,994	\$ (317)	\$ 177,354
Comprehensive income				20,853	136	20,989
Stock issued	-	291				291
Stock retired	(10)	(259)				(269)
Patronage distributions: Cash				(5,700)		(5,700)
Equity issued in Connection with merger	10	343	48,327			48,680
Balance at December 31, 2021	-	2,433	81,946	157,147	(181)	241,345
Comprehensive income				21,699	(679)	21,020
Stock issued	-	201				201
Stock retired	-	(196)				(196)
Patronage distributions: Cash				(9,800)		(9,800)
Equity issued in connection with merger	-	459	64,646			65,105
Balance at December 31, 2022	-	2,897	146,592	169,046	(860)	317,675
Comprehensive income				24,971	(1,056)	23,915
Stock issued	-	208				208
Stock retired	-	(221)				(221)
Patronage distributions: Cash				(13,000)		(13,000)
Cumulative effect of CECL adoption				(78)		(78)
Balance at December 31, 2023	\$ -	\$ 2,884	\$ 146,592	\$ 180,939	\$ (1,916)	\$ 328,499

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 24,971	\$ 21,699	\$ 20,853
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	913	738	659
Provision for credit losses/(Credit loss reversal)	936	68	(2,909)
Allocated patronage from AgVantis	(238)	(134)	-
Losses/(Gains) on sales of premises and equipment	1	(48)	(79)
Net accretion of yield related to loans and notes payable acquired in merger	(1,453)	(1,453)	(2,176)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	(8,080)	(3,275)	1,025
Decrease/(Increase) in prepaid benefit expense	972	(2,159)	(1,595)
Increase in other assets	(2,546)	(602)	(1,448)
Increase in accrued interest payable	1,651	1,260	12
Increase in accrued benefits liability	477	128	141
Increase/(Decrease) in other liabilities	2,709	(2,788)	5,859
Total adjustments	(4,658)	(8,265)	(511)
Net cash provided by operating activities	20,313	13,434	20,342
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	(188,235)	(40,847)	(109,285)
Net cash acquired in business combination	-	402	468
Decrease in investment in CoBank, ACB	1,310	2,220	-
Expenditures for premises and equipment	(1,212)	(1,134)	(1,042)
Proceeds from sales of premises and equipment	108	85	79
Net cash used in investing activities	(188,029)	(39,274)	(109,780)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	191,046	25,284	94,246
(Decrease)/Increase in advance conditional payments	(6,650)	3,959	3,519
Protected borrower stock retired	-	-	(10)
Capital stock retired	(221)	(196)	(259)
Capital stock issued	208	201	291
Cash patronage distributions paid	(9,800)	(6,900)	(3,860)
Net cash provided by financing activities	174,583	22,348	93,927
Net increase/(decrease) in cash	6,867	(3,492)	4,489
Cash at beginning of year	5,332	8,824	4,335
Cash at end of year	\$ 12,199	\$ 5,332	\$ 8,824
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	\$ 47,427	\$ 20,049	\$ 15,345
Income taxes	\$ 32	\$ 2	\$ 7
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Allocated patronage from AgVantis	\$ 238	\$ 134	\$ -
Net charge-offs/(recoveries)	\$ 97	\$ (56)	\$ (2,931)
Patronage distributions payable	\$ 13,000	\$ 9,800	\$ 5,700
Change in accumulated other comprehensive income/(loss)	\$ (1,056)	\$ (679)	\$ 136
Impact of merger transaction			
Assets acquired	\$ -	\$ 269,819	\$ 261,691
Liabilities assumed	\$ -	\$ 204,714	\$ 213,011
Equity Issued	\$ -	\$ 65,105	\$ 48,680

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

- A. Organization: Farm Credit of Western Oklahoma, ACA and its subsidiaries, Farm Credit of Western Oklahoma, FLCA, (Federal Land Credit Association (FLCA)) and Farm Credit of Western Oklahoma, PCA, (Production Credit Association (PCA)), (collectively called “the Association”) are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Alfalfa, Beaver, Beckham, Caddo, Cimarron, Cleveland, Comanche, Cotton, Custer, Dewey, Ellis, Garfield, Grady, Grant, Greer, Harmon, Harper, Jackson, Kiowa, Major, McClain, Roger Mills, Texas, Tillman, Washita, Woods, and Woodward in the state of Oklahoma.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2023, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank (System Banks), and 56 associations.

CoBank, ACB (funding bank or the “Bank”), its 16 related Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries (a FLCA and a PCA), and AgVantis, Inc. (AgVantis) are collectively referred to as the CoBank District (District). CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank.

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

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

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

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

The Association also serves as an intermediary in offering credit and term life insurance, advance conditional payment accounts, and provides additional services to borrowers such as fee appraisals and vehicle and equipment leasing through Farm Credit Leasing.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 3302 Williams Avenue, Woodward, Oklahoma 73801-6944, or by calling (580) 256-3465 or (800) 299-3465. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and the District's financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties, and the impact of activities of the Insurance Corporation.

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

- C. Merger: Effective November 1, 2022, Farm Credit of Enid, ACA (Enid) and effective January 1, 2021, AgPreference, ACA (AgPreference) were merged into Farm Credit of Western Oklahoma, ACA, (Western Oklahoma). Western Oklahoma acquired 100% of the assets and liabilities of Enid and AgPreference. The merged Association conducts business under the name of Farm Credit of Western Oklahoma, ACA (Western Oklahoma) and is headquartered in Woodward, Oklahoma. The primary reason for these mergers was to create a stronger financial institution of greater capital, capacity, and human resources to serve agriculture and rural Oklahoma. The effects of the Enid merger are included in the Association's results of operations, balance sheet, average balances, and related metrics beginning November 1, 2022. The effects of the AgPreference merger are included in the Association's results of operations, balance sheet, average balances, and related metrics beginning January 1, 2021.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but not for previous periods. The consolidated financials reflect the operations of Enid merged balances as of November 1, 2022, and the AgPreference merged balances as of January 1, 2021. Information presented in the Notes to the Consolidated Financial Statement for 2022 reflects balances of the merged Association.

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

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

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC 805, Business Combinations (ASC 805)). Pursuant to these rules, Western Oklahoma acquired the assets and assumed the liabilities of Enid and AgPreference at their acquisition-date fair value. The fair value of the net identifiable assets acquired from Enid (\$65.1 million) and AgPreference (\$48.7 million) were substantially equal to the fair value of the equity interest exchanged in the mergers. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. A net increase of \$65.1 million and \$48.7 million was recorded in shareholders' equity related to each merger respectively.

The following condensed statement of net assets acquired reflects the fair value assigned to Enid's and AgPreference's net assets as of the acquisition dates. There were no subsequent changes to these fair values after the acquisition dates as no additional information became available.

Condensed Statement Of Net Assets Acquired	Enid November 1, 2022	AgPreference January 1, 2021
Assets		
Net loans	\$ 251,445	\$ 244,852
Cash	402	468
Accrued interest receivable	4,599	4,129
Other assets	13,373	12,242
Total Assets	\$ 269,819	\$ 261,691
Liabilities		
Notes payable	\$ 199,649	\$ 210,241
Accrued interest payable	505	329
Other liabilities	4,560	2,441
Total Liabilities	\$ 204,714	\$ 213,011
Fair Value of Net Assets Acquired	\$ 65,105	\$ 48,680

Fair value adjustments to Enid's assets and liabilities included a \$15.4 million decrease to loans and a \$11.1 million decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. \$1.2 million in patronage was declared by Enid to their stockholders prior to the merger and is included in Other liabilities acquired in the merger. The fair value adjustments to AgPreference's assets and liabilities included a \$2.8 million decrease to loans and a \$3.6 million increase to notes payable to reflect similar changes as stated above. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. The loans acquired in both mergers were recorded at an estimated fair value at the acquisition date and transferred in as a Level 3 asset, with no carryover of the related allowance for loan losses. As the loans acquired in the mergers exhibited no evidence of material credit quality deterioration since origination, the Association expects to collect the substantial majority of the contractual amounts of the acquired loans, which totaled \$268.7 million at November 1, 2022 from Enid and \$248.2 million at January 1, 2021 from AgPreference. Merger-related costs reflected in the Consolidated Statement of Comprehensive Income consist primarily of legal fees, service provider charges, audit fees, and other miscellaneous merger expenses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

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

Use of Estimates

The accounting and reporting policies of the Association conform to 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 reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of fair value of financial instruments due to the mergers with Farm Credit of Enid, ACA and AgPreference, ACA.

Recently Issued Accounting Pronouncements

Adopted Guidance

The Association adopted the Financial Accounting Standards Board (FASB) guidance entitled “Measurement of Credit Losses on Financial Instruments” (CECL) and other subsequently issued accounting standards updates related to credit losses on January 1, 2023. This guidance replaced the current incurred loss impairment methodology with a single allowance framework that estimates the current expected credit losses over the remaining contractual life for all financial assets measured at amortized cost and certain off-balance sheet credit exposures. This guidance is applied on a modified retrospective basis. This framework requires management to consider in its estimate of the allowance for credit losses (ACL) relevant historical events, current conditions, and reasonable and supportable forecasts that consider macroeconomic conditions. The adoption of this guidance did not have a material impact on our financial statements.

The following table presents the balance sheet impact to the allowance for credit losses and capital upon adoption of this guidance on January 1, 2023.

<i>(dollars in thousands)</i>	December 31, 2022	CECL adoption impact	January 1, 2023
Assets:			
Allowance for loan losses	\$ 1,838	\$ 77	\$ 1,915
Deferred tax assets	–	–	–
Liabilities:			
Reserve for unfunded commitments	\$ 653	\$ 1	\$ 654
Deferred tax liabilities	–	–	–
Retained earnings:			
Unallocated retained earnings, net of tax	\$ 169,046	\$ (78)	\$ 168,968

The Association also adopted the updated FASB guidance entitled “Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosure” on January 1, 2023. This guidance requires the creditor to determine whether a modification results in a new loan or a continuation of an existing loan, among other disclosures specific to modifications with borrowers that are experiencing financial difficulties. The update eliminated the accounting guidance for troubled debt restructurings by creditors and requires disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases on a prospective basis. The adoption of this guidance did not have a material impact on our financial statements.

In March 2020, the FASB issued guidance entitled “Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” The guidance provided optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. In December 2022, the FASB issued ASU 2022-06, “Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848”. This ASU defers the sunset date of the guidance in Topic 848 on reference rate reform from December 31, 2022 to December 31, 2024. This ASU is effective upon issuance. The adoption of this guidance did not have a material impact on our financial statements.

Summary of the Association’s Significant Accounting Policies

- A. Loans: 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. 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. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Nonaccrual loans are loans for which there is reasonable doubt that all principal and interest will be collected according to the original contractual terms and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described in Note 3. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until the terms of the loan are modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected or otherwise discharged in full.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under Accounting Standards Codification (ASC) 860 "Transfers and Servicing."

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection), circumstances indicate that collection of principal and interest is in doubt or legal action, including foreclosure or other forms of collateral conveyance, has been initiated to collect the outstanding principal and interest. At the time a loan is placed in nonaccrual status, accrued interest that is considered uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, interest payments received in cash are generally recognized as interest income if the collectability of the loan principal is fully expected and certain other criteria are met. Otherwise, payments received on nonaccrual loans are applied against the recorded investment in the loan asset. Nonaccrual loans are returned to accrual status if all contractual principal and interest is current, the borrower is fully expected to fulfill the contractual repayments terms, and after remaining current as to principal and interest for a sustained period or have a recent repayment pattern demonstrating future repayment capacity to make on-time payments. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer should first be recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Association elected to continue classifying accrued interest on loans in accrued interest receivable and not as part of loans on the Consolidated Statement of Condition. The Association has also elected to not estimate an allowance on interest receivable balances because the nonaccrual policies in place provide for the accrual of interest to cease on a timely basis when all contractual amounts are not expected.

Loan modifications may be granted to borrowers experiencing financial difficulty. Modifications can be in the form of one or a combination of principal forgiveness, interest rate reduction, other-than-insignificant payment delay or term extension. Covenant waivers and modifications of contingent acceleration clauses are not considered term extensions.

Collateral-dependent loans are loans secured by collateral, including but not limited to agricultural real estate, crop inventory, equipment, and livestock. CECL requires an Association to measure the expected credit losses based on fair value of the collateral at the reporting date when the Association determines that foreclosure is probable. Additionally, CECL allows a fair value practical expedient as a measurement approach for loans when the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulties. Under the practical expedient measurement approach, the expected credit losses are based on the difference between the fair value of the collateral less estimated costs to sell and the amortized cost basis of the loan.

- B. Allowance for Credit Losses: Effective January 1, 2023, the ACL represents the estimated current expected credit losses over the remaining contractual life of the loans measured at amortized cost and certain off-balance sheet credit exposures. The ACL takes into consideration relevant information about past events, current conditions, and reasonable and supportable macroeconomic forecasts of future conditions. The contractual term excludes expected extensions, renewals, and modifications. The ACL comprises:
- the allowance for loan losses, which covers the loan portfolio and is presented separately on the Consolidated Statement of Condition and
 - the reserve for unfunded commitments, which is presented separately on the Consolidated Statement of Condition.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, considering macroeconomic conditions, forecasts, and other factors prevailing at the time, may result in significant changes in the allowance for loan losses in those future periods.

The allowance for loan losses represents management's estimate of credit losses over the remaining expected life of loans. Loans are evaluated on the amortized cost basis, including premiums and discounts.

The Association employs a disciplined process and methodology to establish its allowance for loan losses that has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

Asset-specific loans are generally collateral-dependent loans (including those loans for which foreclosure is probable) and nonaccrual loans. For an asset-specific loan, expected credit losses are measured as the difference between the amortized cost basis in the loan and the present value of expected future cash flows discounted at the loan's effective interest rate except that, for collateral-dependent loans, credit loss is measured as the difference between the amortized cost basis in the loan and the fair value of the underlying collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral. In accordance with the Association's appraisal policy, the fair value of collateral-dependent loans is based upon independent third-party appraisals or on collateral valuations prepared by in-house appraisers. When an updated appraisal or collateral valuation is received, management reassesses the need for adjustments to the loan's expected credit loss measurements and, where appropriate, records an adjustment. If the calculated expected credit loss is determined to be permanent, fixed, or non-recoverable, the credit loss portion of the loan will be charged off against the allowance for credit losses.

In estimating the pooled component of the allowance for loan losses for loan pools that share common risk characteristics, loans are evaluated collectively and segregated into loan pools considering the risk associated with the specific pool. Relevant risk characteristics include loan type, commodity, credit quality rating, delinquency category, or business segment or a combination of these classes. The allowance is determined based on a quantitative calculation of the expected life-of-loan loss percentage for each loan category by considering the probability of default and the severity of loss given default. Loss given default is determined for each pool based on the aggregate net lifetime losses incurred within that pool. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the loan is 90 days or more past due. Due to limited loss history across the portfolio, the Association used peer data within their quantitative adjustment component for loan pools that have experienced minimal loss history.

The pooled component of the allowance for loan losses also considers factors for each loan pool to adjust for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to:

- lending policies and procedures,
- national, regional, and local economic business conditions, and developments that affect the collectability of the portfolio, including the condition of various markets,
- the nature of the loan portfolio, including the terms of the loans,
- the experience, ability, and depth of the lending management and other relevant staff,
- the volume and severity of past due and adversely classified or graded loans and the volume of nonaccrual loans,
- the quality of the loan review and process,
- the value of underlying collateral for collateral-dependent loans,
- the existence and effect of any concentrations of credit and changes in the level of such concentrations, and,
- the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

The Association uses a single economic scenario over a reasonable and supportable forecast period of 12 months. Subsequent to the forecast period, the Association explicitly reverts to long run historical loss experience beyond the 12 months to inform the estimate of losses for the remaining contractual life of the loan portfolio.

The economic forecasts are updated on a quarterly basis and incorporate macroeconomic variables, including agricultural commodity prices, unemployment rates, Gross Domestic Product (GDP) annual growth rates, government spending to GDP, real consumer spending, United States exports, inflation, and Fed Funds rates.

In addition to the quantitative calculation, the Association considers the imprecision inherent in the process and methodology, emerging risk assessments, and other subjective factors, which may lead to a management adjustment to the modeled allowance for loan loss results. Expected credit loss estimates also include consideration of expected cash recoveries on loans previously charged-off or expected recoveries on collateral-dependent loans where recovery is expected through sale of the collateral. The economic forecasts are updated on a quarterly basis.

Prior to January 1, 2023, the allowance for loan losses was maintained at a level considered adequate to provide for probable losses existing in and inherent in the loan portfolio. The allowance was based on a periodic evaluation of the loan portfolio in which several factors are considered, including economic conditions, collateral values, borrowers' financial conditions, loan portfolio composition, and prior loan loss experience. The allowance for loan losses encompassed various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity would cause these various judgments, evaluations, and appraisals to change over time. Management considered several factors in determining and supporting the levels of the allowances for loan losses, which include, but are not limited to, the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

The Association evaluates the need for a reserve for unfunded commitments under CECL and if required, an amount is recognized and reported separately on the Consolidated Statement of Condition. The amount of expected losses is determined by calculating a commitment usage factor over the contractual period for exposures and applying the loss factors used in the ACL methodology to the results of the usage calculation.

- C. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.
- D. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 3.00 percent of the prior one-year average direct loan volume. The investment in CoBank is comprised of patronage-based stock and purchased stock.
- E. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. 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 operating results. Maintenance and repairs are expensed, and improvements above certain thresholds are capitalized. The Association purchases certain software to enhance or perform internal business functions. Software development costs, as well as costs for software that is part of a cloud computing arrangement incurred in the preliminary and post-implementation project stages are charged to noninterest expense. Costs associated with designing software configuration, installation, coding programs, and testing systems are capitalized and amortized using the straight-line method over 2 to 3 years.
- F. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions other than CoBank. Significant components of other liabilities primarily include accounts payable and employee benefits.
- G. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.
- 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. The Pension Plan was closed to employees beginning January 1, 2007.

The 401(k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

The Association also participates in the Ninth District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

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

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

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

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

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

- K. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains, and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan. See Note 7 for further information.

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

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

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

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

The fair value disclosures are presented in Note 14.

- M. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.
- N. Merger Accounting: The FASB guidance on business combinations applies to all transactions in which an entity obtains control of one or more businesses and requires the acquirer to use the acquisition method of accounting and recognize assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date.

For System institutions, because the stock in each Association is fixed in value, the stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the acquiring Association would identify and estimate the acquisition date fair value of the equity interests (net assets) of the acquired Association instead of the acquisition date fair value of the equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed, are measured based on various estimates using assumptions that management believes are reasonable utilizing information currently available. The excess value received, by the acquiring Association from the acquired Association, over the par value of capital stock and participation certificates issued in the merger is considered to be additional paid-in capital.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

<i>(dollars in thousands)</i>	December 31		
	2023	2022	2021
Real estate mortgage	\$ 1,131,210	\$ 1,081,515	\$ 887,949
Production and intermediate-term	448,728	388,699	332,191
Agribusiness	125,192	73,316	60,643
Rural infrastructure	65,916	38,092	11,963
Agricultural export finance	7,455	6,809	2,000
Rural residential real estate	2,059	1,519	1,800
Total loans	\$ 1,780,560	\$ 1,589,950	\$ 1,296,546

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2023:

<i>(dollars in thousands)</i>	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 41,568	\$ 7,028	\$ 163,106	\$ –	\$ 204,674	\$ 7,028
Production and intermediate-term	69,278	5,215	–	–	69,278	5,215
Agribusiness	90,816	602	–	–	90,816	602
Rural infrastructure	65,916	–	–	–	65,916	–
Agricultural export finance	7,455	–	–	–	7,455	–
Total	\$ 275,033	\$ 12,845	\$ 163,106	\$ –	\$ 438,139	\$ 12,845

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

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of \$44.7 million, \$47.1 million, and \$42.3 million at December 31, 2023, 2022, and 2021, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling \$237 thousand for 2023, \$213 thousand in 2022, and \$220 thousand in 2021 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of \$121.3 million at year-end 2023, \$121.6 million at year-end 2022, and \$107.1 million at year-end 2021 were outstanding. Farm Service Agency (FSA) loan guarantees are utilized when appropriate to manage credit risk. Typically, the Association has a 90% guarantee from the FSA which would ensure that our loss on a guaranteed loan would not exceed 10% of the original loan balance in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured. During 2021, the Association's credit enhancements with federal government agencies also included loans guaranteed at 100% by the Small Business Administration (SBA). The Association did not have any loans guaranteed by the SBA in 2023 or 2022.

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. These categories are defined as follows:

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

The following table shows loans classified under the FCA Uniform Classification system as a percentage of total loans by loan type as of December 31.

	2023	2022 ¹	2021 ¹
Real estate mortgage			
Acceptable	97.51%	97.21%	95.92%
OAEM	1.64%	1.46%	2.69%
Substandard	0.85%	1.33%	1.39%
Total	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	97.88%	97.05%	94.36%
OAEM	1.74%	2.43%	4.57%
Substandard	0.38%	0.52%	1.07%
Total	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	92.89%	100.00%	99.93%
OAEM	6.52%	–	0.07%
Substandard	0.59%	–	–
Total	100.00%	100.00%	100.00%
Rural infrastructure			
Acceptable	85.21%	99.02%	100.00%
OAEM	14.79%	–	–
Substandard	–	0.98%	–
Total	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	100.00%	100.00%	100.00%
Total	100.00%	100.00%	100.00%
Agricultural export finance			
Acceptable	100.00%	100.00%	100.00%
Total	100.00%	100.00%	100.00%
Total Loans			
Acceptable	96.83%	97.35%	95.75%
OAEM	2.49%	1.59%	3.02%
Substandard	0.68%	1.06%	1.23%
Total	100.00%	100.00%	100.00%

¹ Prior to the adoption of CECL on January 1, 2023, loans were presented with accrued interest receivable.

Nonperforming assets consist of nonaccrual loans, accruing loans 90 days or more past due, and other property owned. These nonperforming assets are as follows:

<i>(dollars in thousands)</i>	2023	2022	2021
Nonaccrual loans:			
Real estate mortgage	\$ 3,926	\$ 10,021	\$ 4,703
Production and intermediate-term	1,348	479	198
Total nonaccrual loans	\$ 5,274	\$ 10,500	\$ 4,901
Accruing loans 90 days past due:			
Real estate mortgage	\$ 171	\$ 666	\$ –
Total accruing loans 90 days past due	\$ 171	\$ 666	\$ –
Accruing restructured loans:			
Real estate mortgage		\$ –	\$ 157
Total accruing restructured loans		\$ –	\$ 157
Total nonperforming assets ¹	\$ 5,445	\$ 11,166	\$ 5,058
Nonaccrual loans to total loans	0.30%	0.66%	0.38%
Nonperforming assets ¹ to total loans	0.31%	0.70%	0.39%
Nonperforming assets ¹ to total shareholders' equity	1.66%	3.51%	2.10%

¹ Prior to the adoption of CECL on January 1, 2023, nonperforming assets included accruing restructured loans and nonperforming accrual loans were presented with accrued interest receivable.

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

The following table provides the amortized cost for nonaccrual loans with and without a related allowance for loan losses, as well as interest income recognized on nonaccrual loans during the period:

December 31, 2023				
<i>(dollars in thousands)</i>	Amortized Cost with Allowance	Amortized Cost without Allowance	Total	Interest Income Recognized
Real estate mortgage	\$ –	\$ 3,926	\$ 3,926	\$ 720
Production and intermediate-term	1,323	25	1,348	112
Total	\$ 1,323	\$ 3,951	\$ 5,274	\$ 832

Accrued interest receivable on loans of \$33.8 million at December 31, 2023 has been excluded from the amortized cost of loans and reported separately in the Consolidated Statement of Condition. The Association wrote off accrued interest receivable of \$100 thousand during 2023.

The following table provides an age analysis of past due loans at amortized cost.

December 31, 2023						
<i>(dollars in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 2,500	\$ 335	\$ 2,835	\$ 1,128,375	\$ 1,131,210	\$ 171
Production and intermediate-term	147	1,239	1,386	447,342	448,728	–
Agribusiness	–	–	–	125,192	125,192	–
Rural infrastructure	–	–	–	65,916	65,916	–
Agricultural export finance	–	–	–	7,455	7,455	–
Rural residential real estate	–	–	–	2,059	2,059	–
Total	\$ 2,647	\$ 1,574	\$ 4,221	\$ 1,776,339	\$ 1,780,560	\$ 171

Prior to the adoption of CECL, the age analysis of past due loans included accrued interest as follows:

December 31, 2022						
<i>(dollars in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 687	\$ 5,315	\$ 6,002	\$ 1,093,454	\$ 1,099,456	\$ 666
Production and intermediate-term	453	415	868	394,986	395,854	–
Agribusiness	–	–	–	73,798	73,798	–
Rural infrastructure	–	–	–	38,200	38,200	–
Agricultural export finance	–	–	–	6,853	6,853	–
Rural residential real estate	–	–	–	1,528	1,528	–
Total	\$ 1,140	\$ 5,730	\$ 6,870	\$ 1,608,819	\$ 1,615,689	\$ 666

December 31, 2021						
<i>(dollars in thousands)</i>	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	\$ 55	\$ 4,283	\$ 4,338	\$ 896,591	\$ 900,929	\$ –
Production and intermediate-term	6	128	134	336,651	336,785	–
Agribusiness	–	–	–	60,893	60,893	–
Rural infrastructure	–	–	–	11,995	11,995	–
Agricultural export finance	–	–	–	2,003	2,003	–
Rural residential real estate	–	–	–	1,806	1,806	–
Total	\$ 61	\$ 4,411	\$ 4,472	\$ 1,309,939	\$ 1,314,411	\$ –

Loan Modifications to Borrowers Experiencing Financial Difficulties

Upon the adoption of the guidance, “Financial Instruments – Credit Losses, Troubled Debt Restructurings and Vintage Disclosure”, creditors are required to disclose specific modifications with borrowers that are experiencing financial difficulty.

The following tables show the amortized cost basis at December 31, 2023 for loan modifications granted to borrowers experiencing financial difficulty, disaggregated by loan type and type of modification granted.

<i>(dollars in thousands)</i>	Term Extension	
	Amortized Cost	% of Portfolio Segment
Production and intermediate-term	\$ 373	0.08%
Agribusiness	742	0.59%
Total	\$ 1,115	

<i>(dollars in thousands)</i>	Combination – Interest Rate Reduction and Term Extension	
	Amortized Cost	% of Portfolio Segment
Production and intermediate-term	\$ 77	0.02%
Total	\$ 77	

Accrued interest receivable related to loan modifications granted to borrowers experiencing financial difficulty as of December 31, 2023 was \$13 thousand.

The following tables describe the financial effect of the modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023:

	Weighted-Average Term Extension (in Months)
	Financial Effect
Production and intermediate-term Agribusiness	67.2 4.1

	Combination – Interest Rate Reduction and Term Extension
	Financial Effect
Production and intermediate-term	Reduced weighted average interest rates from 9.85% to 9.50% and added a weighted average of 58.5 months to the life of the loan

None of the loans to borrowers experiencing financial difficulty that received a payment modification during the year ended December 31, 2023 experienced a subsequent default.

The following table sets forth an aging analysis of loans to borrowers experiencing financial difficulty that were modified on or after January 1, 2023, the date of the adoption of the guidance noted above, through December 31, 2023:

<i>(dollars in thousands)</i>	Payment Status of Loans Modified in the Past Twelve Months		
	Current	30-89 Days Past Due	90 Days or More Past Due
Production and intermediate-term Agribusiness	\$ 450 742	\$ – –	\$ – –
Total	\$ 1,192	\$ –	\$ –

Additional commitments to lend to borrowers experiencing financial difficulty whose loans have been modified were \$888 thousand at December 31, 2023.

Troubled Debt Restructuring

Prior to January 1, 2023, the adoption of updated FASB guidance on loan modifications, a restructuring of a loan constituted a troubled debt restructuring, also known as formally restructured, if the creditor for economic or legal reasons related to the borrower's financial difficulties granted a concession to the borrower that it would not otherwise consider. Concessions varied by program and were borrower-specific and could include interest rate reductions, term extensions, payment deferrals, or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may have been forgiven. When a restructured loan constituted a troubled debt restructuring, these loans were included within our impaired loans under nonaccrual or accruing restructured loans.

The following table presents additional information regarding troubled debt restructurings (whether accrual or nonaccrual) that occurred during the years presented.

<i>(dollars in thousands)</i>	Year Ended December 31			
	2022		2021	
	Outstanding Recorded Investment			
	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:				
Real estate mortgage	\$ 3,904	\$ 3,904	\$ –	\$ –
Production and intermediate-term	285	285	–	–
Total	\$ 4,189	\$ 4,189	\$ –	\$ –

Note: Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the loan receivable.

The Association had no TDRs that occurred within the previous 12 months of that year and for which there was a payment default. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2022 or 2021.

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

<i>(dollars in thousands)</i>	Loans Modified as TDRs		TDRs in Nonaccrual Status ¹	
	2022	2021	2022	2021
Real estate mortgage	\$ 3,771	\$ 157	\$ 3,771	\$ –
Production and intermediate-term	136	–	136	–
Total	\$ 3,907	\$ 157	\$ 3,907	\$ –

¹ Represents the portion of loans modified as TDRs that are in nonaccrual status.

Credit Quality – Prior to CECL Adoption

Additional impaired loan information for periods prior to CECL adoption is as follows:

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/22	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 165	\$ 179	\$ 22	\$ 32	\$ –
Production and intermediate-term	415	609	142	93	–
Total	\$ 580	\$ 788	\$ 164	\$ 125	\$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 10,521	\$ 10,726		\$ 9,018	\$ 108
Production and intermediate-term	65	1,461		644	291
Total	\$ 10,586	\$ 12,187		\$ 9,662	\$ 399
Total impaired loans:					
Real estate mortgage	\$ 10,686	\$ 10,905	\$ 22	\$ 9,050	\$ 108
Production and intermediate-term	480	2,070	142	737	291
Total	\$ 11,166	\$ 12,975	\$ 164	\$ 9,787	\$ 399

<i>(dollars in thousands)</i>	Recorded Investment at 12/31/21	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate-term	\$ –	\$ –	\$ –	\$ 101	\$ –
Total	\$ –	\$ –	\$ –	\$ 101	\$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 4,860	\$ 4,935		\$ 3,977	\$ 39
Production and intermediate-term	198	1,861		343	9
Total	\$ 5,058	\$ 6,796		\$ 4,320	\$ 48
Total impaired loans:					
Real estate mortgage	\$ 4,860	\$ 4,935	\$ –	\$ 3,977	\$ 39
Production and intermediate-term	198	1,861	–	444	9
Total	\$ 5,058	\$ 6,796	\$ –	\$ 4,421	\$ 48

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

Interest income on impaired loans that would have been recognized under the original terms of the loans follows.

<i>(dollars in thousands)</i>	For the Year Ended December 31	
	2022	2021
Interest income which would have been recognized under the original loan terms	\$ 625	\$ 273
Less: interest income recognized	387	36
Interest income not recognized	\$ 238	\$ 237

Allowance for Credit Losses

Effective January 1, 2023, the Association adopted the CECL accounting guidance as described in Note 2. A summary of changes in the allowance for loan losses is as follows:

<i>(dollars in thousands)</i>	Balance at December 31, 2022	Cumulative Effect of CECL Adoption	Balance at January 1, 2023	Charge-offs	Recoveries	(Loan Loss Reversals)/ Provision for Loan Losses	Balance at December 31, 2023
Real estate mortgage	\$ 502	\$ (248)	\$ 254	\$ –	\$ –	\$ (23)	\$ 231
Production and intermediate-term	1,139	64	1,203	103	6	(64)	1,042
Agribusiness	117	(46)	71	–	–	580	651
Rural infrastructure	77	309	386	–	–	165	551
Agricultural export finance	1	(1)	–	–	–	1	1
Rural residential real estate	2	(1)	1	–	–	–	1
Total	\$ 1,838	\$ 77	\$ 1,915	\$ 103	\$ 6	\$ 659	\$ 2,477

For periods prior to January 1, 2023, the allowance for loan losses was based on probable and estimable losses inherent in the loan portfolio.

<i>(dollars in thousands)</i>	Balance at December 31, 2021	Charge-offs	Recoveries	(Loan Loss Reversals)/ Provision for Loan Losses	Balance at December 31, 2022
Real estate mortgage	\$ 514	\$ –	\$ –	\$ (12)	\$ 502
Production and intermediate-term	1,164	–	56	(81)	1,139
Agribusiness	116	–	–	1	117
Rural infrastructure	21	–	–	56	77
Agricultural export finance	1	–	–	–	1
Rural residential real estate	6	–	–	(4)	2
Total	\$ 1,822	\$ –	\$ 56	\$ (40)	\$ 1,838

<i>(dollars in thousands)</i>	Balance at December 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2021
Real estate mortgage	\$ 423	\$ –	\$ –	\$ 91	\$ 514
Production and intermediate-term	1,359	–	2,931	(3,126)	1,164
Agribusiness	43	–	–	73	116
Rural infrastructure	1	–	–	20	21
Agricultural export finance	–	–	–	1	1
Rural residential real estate	1	–	–	5	6
Total	\$ 1,827	\$ –	\$ 2,931	\$ (2,936)	\$ 1,822

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

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

<i>(dollars in thousands)</i>	For the Year Ended December 31		
	2023	2022	2021
Balance at beginning of period	\$ 653	\$ 545	\$ 518
Cumulative effect of CECL adoption	1		
Balance at January 1	654		
Provision for reserve for unfunded commitments	277	108	27
Total	\$ 931	\$ 653	\$ 545

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2023, the Association's investment in CoBank is in the form of Class A stock with a par value of \$100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. In 2022, the requirement for capitalizing the Association's direct loan from CoBank changed from 4.00 percent of the Association's prior five-year average direct loan volume to 3.00 percent of the prior one-year average direct loan volume. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

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

The Association owned approximately 1.05 percent of the outstanding common stock of CoBank at December 31, 2023, compared with 1.10 percent in 2022 and 0.98 percent in 2021.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

<i>(dollars in thousands)</i>	December 31		
	2023	2022	2021
Land	\$ 2,370	\$ 2,370	\$ 1,362
Building(s) and leasehold improvements	9,601	9,014	6,861
Furniture, equipment, and automobiles	3,314	3,041	2,467
Construction in progress	–	–	342
	\$ 15,285	\$ 14,425	\$ 11,032
Less: accumulated depreciation	5,425	4,755	4,188
Total	\$ 9,860	\$ 9,670	\$ 6,844

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). According to the agreement, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the line of credit. The GFA is subject to periodic renewals in the normal course of business. The GFA will mature on May 31, 2024. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2023. Substantially all borrower loans are match-funded with CoBank.

Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

<i>(dollars in thousands)</i>	December 31		
	2023	2022	2021
Line of credit	\$ 1,725,000	\$ 1,525,000	\$ 1,175,000
Outstanding principal and accrued interest balance	\$ 1,529,131	\$ 1,335,510	\$ 1,109,267
Average outstanding principal balance under the line of credit	\$ 1,413,023	\$ 1,115,413	\$ 1,035,207
Weighted average interest rate	3.44%	1.94%	1.51%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with the Bank, and our advanced conditional payments, the Association has no other uninsured or insured debt. See Note 2 for additional information. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2023, the Association's notes payable was within the specified limitations.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows:

<i>(dollars in thousands)</i>	2023	2022	2021
Average committed funds	\$ 280,431	\$ 224,910	\$ 195,009
Average rates	3.16%	1.57%	0.15%

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Protected Borrower Stock

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

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock. Our bylaws generally permit stock to be retired at the discretion of the Board of Directors and in compliance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2023, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

C. Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. The following sets forth the regulatory capital ratio requirements and ratios at December 31.

Ratio	Primary Components of Numerator	Denominator	2023	2022	2021	Minimum with Buffer	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE) and common cooperative equities (qualifying capital stock and allocated equity) ¹	Risk-weighted assets	17.21%	17.96%	16.76%	7.0%	4.5%
Tier 1 Capital	CET1 Capital and non-cumulative perpetual preferred stock	Risk-weighted assets	17.21%	17.96%	16.76%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses ² , other common cooperative equities ³ , and term preferred stock and subordinated debt ⁴	Risk-weighted assets	17.39%	18.12%	16.97%	10.5%	8.0%
Tier 1 Leverage	Tier 1 Capital (at least 1.5% must be URE and URE equivalents)	Total assets	16.42%	16.82%	15.51%	5.0%	4.0%
URE and URE Equivalents Leverage	URE and URE Equivalents	Total assets	16.26%	16.64%	16.99%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-weighted assets	17.23%	17.98%	16.79%	–	7.0%

¹ Equities subject to a minimum redemption or revolvement period of 7 or more years

² Capped at 1.25% of risk-weighted assets and inclusive of the reserve for unfunded commitments

³ Equities subject to a minimum redemption or revolvement period of 5 or more, but less than 7 years

⁴ Equities subject to a minimum redemption or revolvement period of 5 or more years

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

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2023. Unless otherwise indicated, all classes of stock have a par value of \$5.00. All classes of stock are transferable to other customers who are eligible to hold such class of stock. Transfers of stock are only allowed as long as the Association meets the regulatory minimum capital requirements. Also, Class B stock may not be transferred while such stock is necessary to qualify their holder as eligible to borrow from us. Refer to the Management Discussion and Analysis Capital Resources discussion for further information.

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

Class B Common Stock (Voting, at-risk, 573,989 shares outstanding) - Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common Stock shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

- Class C Common Stock (Nonvoting, at-risk, 2,800 shares outstanding) - Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services, and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class D Common Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) – Issued to CoBank or to any person through direct sale.
- Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value as may be determined by any agreement of financial assistance between the Association and CoBank) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.
- Class F Common Stock (Voting, protected, no shares outstanding) - Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common Stock shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.
- Class G Common Stock (Nonvoting, protected, no shares outstanding) - Issued only to those individuals and entities who held the same class of stock in a predecessor to the Association and as necessary for conversions from Class F Common Stock. No further shares of Class G Common Stock will be issued. It must be retired upon repayment of the loan.

The changes in the number of shares of capital stock outstanding during 2023 are summarized in the following table.

<i>(Shares in whole numbers)</i>	Capital
Shares outstanding at December 31, 2022	579,406
Issuances	41,659
Retirements	(44,276)
Shares outstanding at December 31, 2023	576,789

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 \$9.8 million in 2023, \$5.7 million in 2022, and \$3.9 million in 2021. An additional \$1.2 million was declared by Farm Credit of Enid, ACA, for their stockholders prior to the merger in 2022 and was also paid in 2023. In 2023, the Association declared a \$13.0 million cash patronage to be distributed during the first quarter of 2024. Refer to Note 1, “Organization and Operations”, for additional information.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: first, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former patrons on a patronage basis, to the extent practicable.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2023, the Association allocated 52.1 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association had accumulated other comprehensive loss of \$1.9 million in 2023, \$860 thousand in 2022, and \$181 thousand in 2021. There were no other items affecting comprehensive income or loss.

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

<i>(dollars in thousands)</i>	2023	2022	2021
Pension and other benefit plans:			
Beginning balance	\$ (860)	\$ (181)	\$ (317)
Other comprehensive income/(loss) before reclassifications	(1,322)	(720)	68
Amounts reclassified from accumulated other comprehensive income/(loss)	266	41	68
Net current period other comprehensive income/(loss)	(1,056)	(679)	136
Year-end balance	\$ (1,916)	\$ (860)	\$ (181)

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

<i>(dollars in thousands)</i>	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)			Location of Gain/Loss Recognized in Statement of Income
	December 31			
	2023	2022	2021	
Pension and other benefit plans:				Salaries and employee benefits
Net actuarial loss	\$ 266	\$ 41	\$ 68	
Total reclassifications	\$ 266	\$ 41	\$ 68	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

<i>(dollars in thousands)</i>	2023	2022	2021
CoBank	\$ 7,393	\$ 6,276	\$ 5,471
AgVantis	475	134	–
Farm Credit Foundations	15	19	19
Other	31	25	–
Total	\$ 7,914	\$ 6,454	\$ 5,490

Patronage distributed from CoBank was in cash. The amount earned in 2023 was accrued and will be paid by CoBank in March 2024. The Association received additional patronage distributions from CoBank of \$995 thousand in 2023, \$1.0 million in 2022, and \$826 thousand in 2021 due to CoBank's strong capital levels and financial results. The amounts earned and accrued in 2022 and 2021 were paid by CoBank in March of the following year.

In 2023 and 2022, patronage distribution from AgVantis was in the form of a notice of allocation. In 2023, 50 percent was distributed in cash with the remainder recorded as an investment in AgVantis and included in other assets on the Consolidated Statement of Condition. The entire patronage allocation in 2022 was recorded as an investment in AgVantis. There was no notice of allocation in 2021.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2024. Farm Credit Foundations, a human resource service provider for several Farm Credit institutions, provides our payroll and human resource services.

Patronage distributions were received from other Farm Credit entities that the Association has sold participation loans to.

NOTE 9 – INCOME TAXES

The provision for income taxes follows.

<i>(dollars in thousands)</i>	Year Ended December 31		
	2023	2022	2021
Current:			
Federal	\$ 3	\$ 21	\$ 2
State	1	4	–
Provision for income taxes	\$ 4	\$ 25	\$ 2

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.

<i>(dollars in thousands)</i>	Year Ended December 31		
	2023	2022	2021
Federal tax at statutory rate	\$ 5,245	\$ 4,562	\$ 4,379
State tax, net	1	3	–
Effect of non-taxable FLCA subsidiary	(6,174)	(4,865)	(3,613)
Change in valuation allowance	980	495	(78)
Patronage refunds to borrowers	–	–	(670)
Return to provision difference	(51)	–	–
Other	3	(170)	(16)
Provision for income taxes	\$ 4	\$ 25	\$ 2

Deferred tax assets and liabilities are comprised of the following.

<i>(dollars in thousands)</i>	December 31		
	2023	2022	2021
Deferred income tax assets:			
Allowance for loan losses	\$ 474	\$ 416	\$ 437
Nonaccrual loan interest	30	9	60
Net operating loss carryforwards	4,531	3,433	1,189
Charitable contribution carryforward	1	1	1
Fair market value on loans related to merger	107	203	58
Gross deferred tax assets	\$ 5,143	\$ 4,062	\$ 1,745
Less: valuation allowance	(4,704)	(3,649)	(1,325)
Deferred tax assets, net of valuation allowance	\$ 439	\$ 413	\$ 420
Deferred income tax liabilities:			
Bank patronage allocation	(456)	(425)	(383)
Book/Tax difference in depreciation	42	34	(16)
Depletion	(25)	(23)	(21)
Gross deferred tax liability	\$ (439)	\$ (414)	\$ (420)
Net deferred tax liability	\$ –	\$ (1)	\$ –

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws.

The Association recorded a valuation allowance of \$4.7 million in 2023, \$3.6 million in 2022, and \$1.3 million in 2021. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation

allowance accordingly. The Association had federal and state net operating losses of \$16.3 million that have an indefinite carryforward period and \$2.4 million that expire from 2024 to 2036.

The Association has no uncertain tax positions as of December 31, 2023, 2022, or 2021. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2020 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth Retirement Plan, a multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The defined benefit pension plan reflects an funded asset totaling \$16.2 million at December 31, 2023. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was \$282.2 million at December 31, 2023, \$271.9 million at December 31, 2022, and \$347.3 million at December 31, 2021. The fair value of the plan assets was \$298.4 million at December 31, 2023, \$281.5 million at December 31, 2022, and \$341.9 million at December 31, 2021. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was \$11.6 million in 2023, \$8.1 million in 2022, and \$13.7 million in 2021. The Association's allocated share of plan expenses included in salaries and employee benefits was \$1.6 million in 2023, \$973 thousand in 2022, and \$1.5 million in 2021. Participating employers contributed \$4.0 million in 2023, \$30.0 million in 2022, and \$30.0 million in 2021 to the plan. The Association's allocated share of these pension contributions was \$639 thousand in 2023, \$3.1 million in 2022, and \$3.1 million in 2021. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2024 is \$2.2 million. The Association's allocated share of these pension contributions is expected to be \$542 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical Plan to eligible retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are 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 \$2 thousand in 2023 and income of \$3 thousand in 2022 and \$4 thousand in 2021. The Association made cash contributions of \$15 thousand in 2023, \$9 thousand in 2022, and \$11 thousand in 2021.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were \$497 thousand in 2023, \$146 thousand in 2022, and \$162 thousand in 2021.

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

<i>(dollars in thousands)</i>	Nonqualified Pension Restoration Benefits		
	2023	2022	2021
Change in benefit obligation:			
Benefit obligation at the beginning of the period	\$ 1,441	\$ 489	\$ 469
Obligation acquired in merger	-	133	-
Service cost	166	95	87
Interest cost	65	10	7
Actuarial loss/(gain)	1,322	720	(68)
Benefits paid	(6)	(6)	(6)
Benefit obligation at the end of the period	\$ 2,988	\$ 1,441	\$ 489
Change in plan assets:			
Company contributions	6	6	6
Benefits paid	(6)	(6)	(6)
Fair value of plan assets at the end of the period	\$ -	\$ -	\$ -
Funded Status of the plan	\$ (2,988)	\$ (1,441)	\$ (489)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	\$ 2,988	\$ 1,441	\$ 489
Net amount recognized	\$ 2,988	\$ 1,441	\$ 489

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

<i>(dollars in thousands)</i>	2023	2022	2021
Net actuarial loss	\$ (1,916)	\$ (860)	\$ (181)
Total amount recognized in AOCI/(loss)	\$ (1,916)	\$ (860)	\$ (181)

An estimated net actuarial loss of \$483 thousand for the Pension Restoration Plan will be amortized into income over the next year.

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

<i>(dollars in thousands)</i>	2023	2022	2021
Accumulated benefit obligation	\$ 2,986	\$ 1,386	\$ 479
Fair value of plan assets	\$ -	\$ -	\$ -

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

<i>(dollars in thousands)</i>	2023	2022	2021
Projected benefit obligation	\$ 2,988	\$ 1,441	\$ 489
Fair value of plan assets	\$ -	\$ -	\$ -

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

<i>(dollars in thousands)</i>	Nonqualified Pension Restoration Benefits		
	2023	2022	2021
Components of net periodic benefit cost			
Service cost	\$ 166	\$ 95	\$ 87
Interest cost	65	10	7
Net amortization and deferral	266	41	68
Net periodic benefit cost	\$ 497	\$ 146	\$ 162

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

<i>(dollars in thousands)</i>	2023	2022	2021
Current year net actuarial gain/(loss)	\$ (1,322)	\$ (720)	\$ 68
Amortization of net actuarial loss	266	41	68
Total recognized in other comprehensive income/(loss)	\$ (1,056)	\$ (679)	\$ 136

Actuarial gains/losses in 2023, 2022, and 2021 were primarily due to changes in plan experience, discount rate, and the plan demographics.

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

	Nonqualified Pension Restoration Benefits		
	2023	2022	2021
Discount rate	4.99%	4.57%	2.14%
Rate of compensation increase	7.10%	7.10%	5.40%
Interest crediting rate	5.00%	5.00%	5.00%

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

	Nonqualified Pension Restoration Benefits		
	2023	2022	2021
Discount rate			
Projected benefit obligation	4.57%	2.14%	1.65%
Service cost	4.70%	2.38%	1.36%
Interest cost	4.60%	2.00%	1.45%
Rate of compensation increase	7.10%	5.40%	5.40%
Interest crediting rate	5.00%	5.00%	5.00%

Estimated Future Benefit Payments

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

<i>(dollars in thousands)</i>	Pension Restoration Benefits
2024	\$ 191
2025	\$ 308
2026	\$ 308
2027	\$ 117
2028	\$ —
2029 – 2033	\$ 3,070

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were \$963 thousand in 2023, \$731 thousand in 2022, and \$744 thousand in 2021.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

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

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

<i>(dollars in thousands)</i>	2023	2022	2021
Beginning balance	\$ 23,858	\$ 24,642	\$ 19,722
New loans	23,992	21,522	28,065
Repayments	(23,079)	(21,528)	(21,238)
Reclassifications ¹	(1,820)	(778)	(1,907)
Ending balance	\$ 22,951	\$ 23,858	\$ 24,642

¹ Represents loans that were once considered related party, but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2023 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid \$4.1 million in 2023, \$3.7 million in 2022, and \$3.1 million in 2021 to AgVantis for technology services and \$22 thousand in 2023, \$42 thousand in 2022, and \$20 thousand in 2021 to CoBank for operational services. One Association officer serves as an AgVantis director. The Association paid \$212 thousand in 2023, \$180 thousand in 2022, and \$162 thousand in 2021 to Foundations for human resource services.

In 2022, the Association received equity positioning income from CoBank of \$2.8 million due to the transition to a pro-rata equity positioning strategy with CoBank. No such fees were received in 2023 or 2021.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

As of December 31, 2023, there were no enforcement actions in effect for the Association and FCA took no enforcement on the Association during the year.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. 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 generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2023, \$402.6 million 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 is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding these commitments, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2023, \$5.8 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2024 to 2028. The maximum potential amount of future payments the Association is required to make under the guarantees is \$5.8 million. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio.

NOTE 14 – FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

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

<i>(dollars in thousands)</i>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2023	\$ 2,443	\$ –	\$ –	\$ 2,443
2022	\$ 1,633	\$ –	\$ –	\$ 1,633
2021	\$ 1,062	\$ –	\$ –	\$ 1,062

The Association has no liabilities measured at fair value on a recurring basis for the periods presented. Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

<i>(dollars in thousands)</i>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Loan Assets				
2023	\$ –	\$ –	\$ 1,034	\$ 1,034
2022	\$ –	\$ –	\$ 671	\$ 671
2021	\$ –	\$ –	\$ –	\$ –

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

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.

The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

Assets Held in Non-Qualified Benefits Trusts

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

Loans

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

NOTE 15 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 7, 2024, which is the date the financial statements were issued, and no material subsequent events were identified.

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS (UNAUDITED)

(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding the properties of the Association as of December 31, 2023:

Location	Description	Form of Ownership
3302 Williams Avenue Woodward, Oklahoma	Headquarters Office	Owned
2600 Modelle Avenue Clinton, Oklahoma	Branch Office	Owned
2143 Highway 64 North Guymon, Oklahoma	Branch Office	Owned
219 Oklahoma Boulevard Alva, Oklahoma	Branch Office	Owned
101 Carter Road Elk City, Oklahoma	Branch Office	Owned
513 South Mission Street Anadarko, Oklahoma	Branch Office	Owned
4955 Farm Credit Drive Tuttle, Oklahoma	Branch Office	Owned
3120 North Main Altus, Oklahoma	Branch Office	Owned
3100 North Main Altus, Oklahoma	Office Building (leased out)	Owned
1605 W. Owen K. Garriott Road Enid, Oklahoma	Branch Office	Owned
819 Douglas Avenue Beaver, Oklahoma	Satellite Office	Rented
100 West Main Boise City, Oklahoma	Satellite Office	Rented
309 4 th Street Chattanooga, Oklahoma	Satellite Office	Owned

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

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

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 13 to the financial statements, "Commitments and Contingencies" included in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2023, 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

- | | | |
|---------------|---|---|
| Roger Fischer | - | Chairman. Mr. Fischer became Chairman of the Board in May 2023. Mr. Fischer was previously elected Vice Chairman of the Board in June 2021 and was re-elected in November of 2022 after the merger with Farm Credit of Enid. He joined the Board in January 2021 and has been an elected director since 1999, having served on the AgPreference Board of Directors prior to the merger with Farm Credit of Western Oklahoma. For the past five years, he has been engaged in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, cotton, and cow/calf production. He is a member of the Board of Directors of the Southwest Council of Agribusiness, an organization to advance the interests of agribusinesses. He previously served as a member of the Board of Directors of the Oklahoma Cotton Council, a trade organization, until October 2022. Mr. Fischer was elected to a three-year term expiring in 2024. |
| Troy White | - | Vice Chairman. Mr. White was first elected to the Board in 2017 and was elected Vice Chairman of the Board in May 2023. Mr. White currently serves as Vice Chairman of the Compensation Committee and is a member of the Governance Committee. For the past five years, he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of stocker cattle, cow/calf, and wheat. Mr. White serves as Woodward County Commissioner for District I and as President of Bull Creek Cattle Company, a family farming corporation. |

Mr. White is involved in commercial property ownership and management as managing member of Hillcrest Property Management LLC, as President of Bull Creek Enterprises, Inc., and as past managing member of Bull Creek Properties LLC. Mr. White serves on the Trust Committee of the NW Oklahoma Solid Waste Disposal Authority, a landfill in Woodward County, Oklahoma. Mr. White was elected to a five-year term expiring in 2028.

- Chad Budy - Director. Mr. Budy was first elected to the Board in 2021 and serves as a member of the Audit and Risk/Technology Committees. For the past five years, he has been engaged in production agriculture in Western Oklahoma with principal enterprises consisting of stockers, wheat, milo, cow/calf, alfalfa, and soybean production. Mr. Budy serves on the Woods County FSA Board, a board that administers FSA programs. He serves as President on the Woods County Farm Bureau Board, an organization that advocates for agriculture. Mr. Budy also serves as a member of the American Farm Bureau Energy Advisory Committee. Mr. Budy was elected to a three-year term expiring in 2024.
- Ricky Carothers - Director. Mr. Carothers joined the Board in October 2014 and has been an elected director since 2003, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Carothers currently serves as a member of the Compensation Committee. For the past five years, he has been engaged in production agriculture in Southwestern Oklahoma with principal enterprises consisting of wheat, cotton, cow/calf, and stocker cattle production. He is Manager of Carothers Farms, a family farming operation. He is a member of the Farm Service Agency County Committee, a U.S. Department of Agriculture farm community organization. Mr. Carothers was elected to a three-year term expiring in 2024.
- Stephanie Craighead - Appointed Director. Ms. Craighead was first appointed to the Board in July 2015. Ms. Craighead is a member of the Audit Committee and Association Leadership Committee (SAC). For the past five years, she has been engaged in production agriculture in Northwest Oklahoma with a principal enterprise of beef cattle. Ms. Craighead is a member of Craighead Ranch LLC and member-Secretary of C & S Cattle Company, both of which are family ranching operations. She is also a member of C & S Holdings LLC, a family holding company, as well as a member of Twin Hills LLC, a residential development company. Ms. Craighead is also a member of Craighead-ILIFF LLC, a commercial property business. Ms. Craighead is a CPA and a Seminar Instructor for various areas of taxation. In addition, Ms. Craighead and her husband are involved in real estate development. Ms. Craighead is a past member and Treasurer of the Plains Indians and Pioneer Museum Board, an organization to collect and preserve the history of Northwest Oklahoma. Ms. Craighead was appointed to a three-year term expiring in 2024.
- David Dolch - Director. Mr. Dolch joined the Board in October 2014 and has been an elected director since 2012, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Dolch serves as Vice-Chairman of the Governance Committee and is a member of the Compensation Committee and Credit Review Committee. For the past five years, he has been engaged in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, club calves, and cattle semen sales. Mr. Dolch is an employee and assistant manager of Clinton Livestock Auction, a livestock auction service. He also serves as President of Verden Ag Boosters, an organization supporting local youth. Mr. Dolch was elected to a five-year term expiring in 2028.
- Bryan Fischer - Director. Mr. Fischer joined the Board in November 2022 and has been an elected director since 2001, having served on the Farm Credit of Enid Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Fischer currently serves as the Chairman of the Compensation Committee, the Vice Chairman of the Association Leadership Committee (SAC), and is a member of the Credit Review Committee. For the past five years, Mr. Fischer has been involved in production agriculture. He served as a Trustee on the Executive Committee of the Northwestern Oklahoma State University Foundation until 2019. The Foundation was established for the purpose of receiving, investing, and distributing scholarships and awards for the University. Mr. Fischer also served on the CoBank Nominating Committee from 2016 to 2019. Mr. Fischer has served as a delegate for the Association in the Farm Credit Association Leadership Committee and the Farm Credit Council from 2017 until present. Mr. Fischer is serving a three-year term expiring in 2025.

- Mark Graf - Director. Mr. Graf was first elected to the Board in 2016 and he currently serves as Vice Chairman of the Risk/Technology Committee and as a member of the Governance Committee. For the past five years, he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, cow/calf, cotton, milo, sesame, soybeans, and corn. Mr. Graf is also involved in fertilizer sales, commercial spraying, commercial planting, custom harvesting, custom swathing, custom baling, oil and gas, and the selling and installation of vinyl fencing. He is the owner of M Ag, a family commercial spraying and fertilizer business and managing member of 4 MV Farms LLC, a family business involved in the transportation of raised products. Mr. Graf is Chairman of the Board for Corn Bible Academy, a Christian school located in Corn, Oklahoma. Mr. Graf formerly served as Chairman of the Senate at Tabor College where he earned a bachelor's degree in computer science. Mr. Graf was elected to a three-year term expiring in 2025.
- Kenton Javorsky - Director. Mr. Javorsky became Chairman of the Board in June 2021 and was re-elected as Chairman in November 2022 after the merger with Farm Credit of Enid. Mr. Javorsky served as Board Chairman until May 2023. He was first elected to the Board in 2009. Mr. Javorsky serves as Chairman of the Association Leadership Committee (SAC) and as a member of the Risk/Technology Committee. For the past five years, he has been engaged in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, cotton, milo, sesame, hay, canola, and cow/calf production, together with custom planting and custom harvesting. Mr. Javorsky is President of Welderson Farms Inc., a family farming operation, and serves as a salesman for Western Equipment. Mr. Javorsky serves as a member of the Corn Bible Academy Relocation Committee, a Christian school located in Corn, Oklahoma. He was formerly on the Board of Directors of Friends of Christian Education, an education group in Western Oklahoma, and former board member and Chairman of the Western Oklahoma Christian School, a private elementary school in Clinton, Oklahoma. Mr. Javorsky was elected to a three-year term expiring in 2024.
- Dennie Jenkins - Director. Mr. Jenkins was first elected to the Board in 2013 and he currently serves as a member of the Risk/Technology Committee. For the past five years, he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of registered Angus cattle and wheat/wheat seed, together with custom seed cleaning, custom farming, and custom hay swathing-baling. He is Secretary-Treasurer of the OK&T Angus Breeders Association Board, an association to merchandise registered Angus cattle and serves as Secretary for the Ellis County Farm Bureau Board, a volunteer organization of farm and ranch families. Mr. Jenkins is Secretary-Treasurer of the Catesby, Oklahoma Volunteer Fire Department and a former member/Chairman on the Northwest Cattlemen's Association Board, an organization to advance the beef industry. Mr. Jenkins was elected to a three-year term expiring in 2025.
- Nathan Johnson - Director. Mr. Johnson was first elected to the Board in 2018 and he currently serves as a member of the Risk/Technology, Governance, and Credit Review Committees. For the past five years, he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of corn, milo, wheat, and cow/calf. Mr. Johnson serves as a committee member of the Cimarron County NRCS, a U.S. Department of Agriculture Conservation District, and as President of the Cimarron County Stock Show Board, an organization to advance the local stock show. Mr. Johnson was elected to a three-year term expiring in 2024.
- Scott Neufeld - Director. Mr. Neufeld joined the Board in November 2022 and has been an elected director since 2017 having served on the Farm Credit of Enid Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Neufeld serves as Chairman of the Governance Committee, as a member of the Risk/Technology Committee, and as a member of the Association Leadership Committee (SAC). For the past five years, Mr. Neufeld has been involved in production agriculture. He is a partner of L & S Farms, LLC, a farming limited liability company. Mr. Neufeld serves as Board Chairman for Major County Farm Bureau, a service-oriented organization. Additionally, he serves as a member of the American Farm Bureau Federation's Issue Advisory Committee for the state of Oklahoma. Mr. Neufeld is serving a five-year term expiring in 2028.

- Lonnie Olson - Appointed Director. Mr. Olson joined the Board in January 2021 and has been an appointed director since 2005 having served on the AgPreference Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Olson serves as Vice Chairman of the Audit Committee. Mr. Olson resides in Hobart, Oklahoma and has worked for Edward Jones Investments as a Financial Advisor since 1997. He owns rental properties and a cattle operation and is President of LONCO, Inc., a family corporation involved in operating rental property. In addition, he is a member manager of Olson Family Land and Cattle, a family company involved in owning farmland and cattle. Mr. Olson is a board member and President of the Hobart Community Foundation, an organization to support the Hobart community. He serves on the Kiowa County 529 Ambulance Board, a board related to the local ambulance service. Mr. Olson serves as a board member of the Kiowa County Economic Development Authority, an organization created to support economic development in Kiowa County. Mr. Olson is serving a five-year term expiring in 2028.
- Robert Peeler - Director. Mr. Peeler joined the Board in January 2021 and has been an elected director since 2020 having served on the AgPreference Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Peeler serves as a member of the Governance and Compensation Committees. For the past five years, he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of cow/calf and stockers. Mr. Peeler serves on the Reed Water Corporation Board of Directors, a corporation that sells and distributes water to Western Greer and Northern Harmon counties. He previously served as Chairman of the Greer County FSA Farm Committee. Mr. Peeler is serving a five-year term expiring in 2028.
- Karen Pittman - Appointed Director. Ms. Pittman joined the Board in November 2022 and has been an appointed director since 2019 having served on the Farm Credit of Enid Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Ms. Pittman currently serves as Chairwoman of the Audit Committee. Ms. Pittman previously served as Vice President and Chief Financial Officer of Farm Credit of Enid, and retired in June of 2018. Prior to her retirement, she served in the Farm Credit System since 1975. Ms. Pittman is serving a three-year term expiring in 2025.
- Dennis Schultz - Director. Mr. Schultz joined the Board in November 2022 and has been an elected director since 2003 having served on the Farm Credit of Enid Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Schultz serves as a member on the Risk/Technology Committee. For the past five years, Mr. Schultz has been involved in production agriculture. He is a partner of Schultz Brothers, a family farming business. Mr. Schultz currently serves as Finance Chairman for the United Methodist Church of Pond Creek and served as treasurer for the Pond Creek Lion's Club until 2017. Mr. Schultz is serving a three-year term expiring in 2024.
- Steve Semmel - Director. Mr. Semmel was re-elected to the Board in 2023. Mr. Semmel previously served as a director from 2003 until 2021. Mr. Semmel serves as a member of the Compensation, Governance, and Credit Review Committees. For the past five years, he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of wheat, cow/calf, stocker cattle, and hay production. He is a partner with his son in S & S Farm & Ranch, a cattle/wheat business, and a partner and Secretary of NAPA, an auto parts store in Woodward, Oklahoma. Mr. Semmel is a partner and Vice President of OK Rental Equipment, an oilfield equipment rental business, and is a member of the Woodward County Excise Board, a non-elected county budget and tax board. He is a former member/Chairman of the Woodward Elks Rodeo Committee, a local organization to promote the annual rodeo. Mr. Semmel was elected to a five-year term expiring in 2028.
- Lyndal Skaggs - Appointed Director. Mr. Skaggs joined the Board in November 2022 and has been an appointed director since 2009 after being an elected director since 1987, having served on the Farm Credit of Enid Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Skaggs currently serves as the Chairman of the Risk/Technology Committee and as a member of the Audit Committee. Mr. Skaggs is a farmer and rancher and was employed by ConocoPhillips as a Senior IT Analyst until his retirement in 2018. He is a partner of Skaggs Brothers Minerals, a mineral rights purchasing business. Mr. Skaggs has had a controlling interest in his family farming and investment company, Skaggs Family LLC, since early 2019. Mr. Skaggs was appointed to a three-year term expiring in 2025.

- Robert Williams - Director. Mr. Williams joined the Board in January 2021 and has been an elected director since 2019 having served on the AgPreference Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Williams serves as a member of the Audit Committee and the Association Leadership Committee (SAC). For the past five years, he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, stocker cattle, feeder cattle, and cotton. Mr. Williams serves as the Chairman of the Board of Regents for Western Oklahoma State College and as a member of the Harmon County Water Corporation board, an organization that sells and distributes water in Harmon County. He served as a member of the Harmon County Civic Trust Authority until 2022. Mr. Williams is serving a three-year term expiring in 2025.
- Brandon Denton - Director. Mr. Denton's term expired in May 2023.
- Tyler Kamp - Director. Mr. Kamp's term expired in May 2023.
- Jimmie Purvine - Director. Mr. Purvine's term expired in May 2023.
- Bobby Tarp - Appointed Director. Mr. Tarp's term expired in May 2023.
- James Wuerflein - Director. Mr. Wuerflein's term expired in May 2023.

SENIOR OFFICERS

- Greg Livingston - President and Chief Executive Officer. Appointed President and Chief Executive Officer effective January 1, 2024. Mr. Livingston held the role of Chief Lending Officer from January 2008 through December 2023. Mr. Livingston has served the Farm Credit System since January 2, 1992. Mr. Livingston has served in a variety of management positions including Chief Operating Officer and Vice President of Business Development-Marketing. Mr. Livingston operates a part-time family farming-ranching operation. Effective January 1, 2024, Mr. Livingston serves on the AgVantis, Inc. Board, a company that develops and provides services to Farm Credit Associations. Mr. Livingston serves on the Dewey County Fair Board, an advisory group for the county fair association, and he serves on the Seiling Round-Up Club Board, a local organization to promote the Seiling, Oklahoma rodeo. Mr. Livingston also serves on the Seiling Education Foundation Board, a foundation to promote and raise money for the education of Seiling students, and he serves on the Seiling Rural Fire Association Board, an organization that provides fire protection and emergency response services to the Seiling community. Mr. Livingston also serves on the First Christian Church Board. Mr. Livingston is a past member of the Red Angus Association of America Finance Committee, an organization to advance the Red Angus industry, and a past board member/President of the Brumfield Cemetery Association Board, an organization for the preservation and upkeep of the local cemetery. He is also a past board member of the Seiling Economic Development Authority, an organization to advance economic development in Seiling, Oklahoma.
- Blake Byrd - Senior Executive Vice President and Chief Operating Officer. Mr. Byrd has served the Farm Credit System since June 6, 1988. He was appointed Senior Executive Vice President and Chief Operating Officer effective January 1, 2021 following the merger with AgPreference. Prior to the AgPreference merger, Mr. Byrd served as Senior Executive Vice President and Chief Banking Officer. Before joining the Association, Mr. Byrd served in a range of management positions with Farm Credit of Central Oklahoma including Chief Executive Officer, Chief Financial Officer, and Chief Credit Officer. In addition, Mr. Byrd is involved in a small family farming operation and in residential rental property.
- Mike McDonald - Executive Vice President and Chief Credit Officer. Mr. McDonald has served the Farm Credit System since January 31, 1996. He was appointed Chief Credit Officer effective December 2003. Mr. McDonald has served in a variety of roles with Farm Credit as well as the commercial banking industry. Mr. McDonald runs a part-time family farming-ranching operation. He is also involved in oil/gas activity.
- Russell Strecker - Executive Vice President and Chief Risk Officer/Director of Internal Audit. Mr. Strecker has served the Farm Credit System since June 14, 1993 and was appointed Vice President and Chief Risk Officer effective October 2014 following the merger with Farm Credit of Central Oklahoma.

Following the AgPreference merger effective January 1, 2021, Mr. Strecker was appointed as the Director of Internal Audit. Prior to joining the Association, Mr. Strecker had served in a range of positions with Farm Credit of Central Oklahoma including Chief Credit Officer. Mr. Strecker previously served on the Caddo County 4-H Foundation Board, an organization promoting local youth, and previously served as Vice Chairman on the Caddo County Sirloin Club Board, an organization supporting the Caddo County Free Fair. Mr. Strecker previously served as Treasurer on the Caddo County Farmers Market Board, an organization promoting small-local agriculture in Caddo County, Oklahoma, and previously served as President on the Caddo County Cattlemen's Association Board, an organization to advance the beef industry. He also previously served on the Anadarko Municipal Airport Board, an organization to promote and advance the airport in Anadarko. Mr. Strecker operates a part time farming/ranching operation and owns rental property.

- Jamey Mitchell - Executive Vice President and Chief Financial Officer. Mr. Mitchell has served the Association since April 21, 2003. He was appointed Vice President and Chief Financial Officer effective May 2015. Mr. Mitchell has served in various roles including Loan Officer and Vice President-Branch Manager. Mr. Mitchell began his career with PricewaterhouseCoopers LLP as a staff accountant. He is a CPA and a member of the Oklahoma Society of Certified Public Accountants. Mr. Mitchell is an owner/operator of Mitchell Brothers Land & Cattle, LLC where he runs a part-time family farming/ranching operation. He also serves as Mayor of Texhoma, Oklahoma, a small community in the Oklahoma Panhandle. He also serves as Chairman of the Texhoma Housing Authority, an organization to promote housing in Texhoma.
- Fred Slater - Executive Vice President and Chief Participation Officer. Mr. Slater has served in the Farm Credit System since April 24, 1995. He was appointed Executive Vice President and Chief Participation Officer effective November 1, 2022 following the merger with Farm Credit of Enid. Prior to the Farm Credit of Enid merger, he served as Chief Credit Officer of Farm Credit of Enid since June 1, 2008. Mr. Slater served as a member of the board for Major County Farm Bureau, a service-oriented organization, until 2017. He was a member of the Oklahoma State University Animal Science Alumni Board until 2016 and the Oklahoma FFA Foundation Board until 2017, both for fundraising.
- Jeff Wasson - Vice President and Chief Information Officer. Mr. Wasson has served Farm Credit of Western Oklahoma since August 1, 2013 and was appointed Vice President and Chief Information Officer in February 2020. Prior to joining the Association full-time, Mr. Wasson served the Farm Credit System as well as other area businesses in the capacity of contract IT support. Mr. Wasson is in a partnership with his wife in a part-time family metal fabrication business.
- Sandy Jones - Vice President and Chief Administrative Officer. Ms. Jones has served the Farm Credit System since January 24, 1990. She was appointed Vice President of Corporate Operations and Human Resources Administrator following a merger with Farm Credit of Central Oklahoma in October 2014. In February 2020, Ms. Jones accepted the role of Vice President and Chief Administrative Officer. Ms. Jones has served in a variety of operational and management positions throughout her career including Operations Supervisor and Human Resources Administrator.
- John Grunewald - President and Chief Executive Officer. Mr. Grunewald retired effective December 31, 2023. Mr. Grunewald had served the Farm Credit System since June 2, 1980. Mr. Grunewald was appointed President and Chief Executive Officer effective July 2001. Prior to joining the Association, he was President and Chief Executive Officer of the Clinton Production Credit Association. Mr. Grunewald has served in a variety of positions including 31 years as Chief Executive Officer. He is a member of the Farm Bureau Foundation Board, an organization to promote Oklahoma agriculture, and serves on the Advisory Board for the Oklahoma Agricultural Enhancement Program, an organization to develop agriculture programs in Oklahoma. Mr. Grunewald also served on the AgVantis, Inc. Board, a company that develops and provides services to Farm Credit Associations. He is a past member of the National FFA Sponsors Board, a board to support the National FFA, and a past member on the National FFA Foundation Board, a foundation for the benefit of the National FFA.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Per the Association's Director Honoraria policy, during 2023, directors of the Association are paid a monthly stipend of \$1,900 per month. The Board Chairman is paid an additional monthly stipend of \$500 while the Audit Committee Chairman is paid an additional monthly stipend of \$400. The Vice Chairman of the Board, the Risk/Technology Committee Chairman, and the Governance Committee Chairman are each paid an additional monthly stipend of \$100. The Chairman of the Compensation Committee is paid an additional monthly stipend of \$200. Audit Committee, Risk/Technology Committee, and Governance Committee meetings are normally held in conjunction with regularly scheduled board meetings, while Compensation Committee meetings are typically not held in conjunction with regularly scheduled board meetings. If any meeting is not held in conjunction with a regularly scheduled board meeting, no additional compensation is paid to the directors other than the mileage reimbursement. Compensation includes travel expenses for spouse/guest travel related to the Board members' official duties. Association directors and employees were reimbursed for actual, necessary, and usual travel and subsistence expenses and mileage at the rate of \$0.655 per mile. Additional information for each director is provided below.

Name	Number of Days Served at		Total Compensation for Board Meetings and Other Official Duties
	Board Meetings	Other Official Activities	
Roger Fischer	8.0	11.0	\$ 30,510
Troy White	8.0	10.0	26,100
Chad Budy	8.0	11.0	24,211
Ricky Carothers	8.0	11.0	25,723
Stephanie Craighead	8.0	10.0	23,854
David Dolch	8.0	9.0	24,917
Bryan Fischer	8.0	12.0	26,668
Mark Graf	8.0	13.0	26,030
Kenton Javorsky	7.0	9.0	27,720
Dennie Jenkins	8.0	4.0	22,800
Nathan Johnson	8.0	5.0	22,985
Scott Neufeld	7.0	7.0	26,448
Lonnie Olson	8.0	15.0	24,942
Robert Peeler	8.0	4.0	23,505
Karen Pittman	8.0	13.0	29,823
Dennis Schultz	8.0	4.0	24,142
Steve Semmel	6.0	2.0	13,682
Lyndal Skaggs	8.0	17.0	26,862
Robert Williams	8.0	16.0	24,309
Brandon Denton	1.0	2.0	9,500
Tyler Kamp	1.0	–	9,500
Jimmie Purvine	2.0	3.0	9,500
Bobby Tarp	2.0	1.0	9,500
James Wuerflein	2.0	–	9,500
Total Compensation			\$ 522,731

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 \$141,839 in 2023, \$97,339 in 2022, and \$62,528 in 2021. There was no non-cash compensation paid to directors during 2023.

Information on chief executive officer (CEO) and senior officer compensation follows. The CEO compensation is not included with the senior officer compensation.

President and CEO	Year	Annual					Total
		Salary	Incentive Plan	Change in Pension Value	Deferred/Perquisites	Other	
John Grunewald	2023	\$ 391,500	\$ 66,132	\$ 1,101,646	\$ 25,118	\$ 403,698	\$ 1,988,094
John Grunewald	2022	\$ 357,500	\$ 54,000	\$ (485,004)	\$ 15,354	\$ 18,729	\$ (39,421)
John Grunewald	2021	\$ 338,272	\$ 53,550	\$ (64,239)	\$ 16,022	\$ 18,837	\$ 362,442

Aggregate Number of Senior Officers/Highly compensated Individuals (excluding CEO)	Year	Annual					Total
		Salary	Incentive Compensation	Change in Pension Value	Deferred/Perquisites	Other	
10	2023	\$ 2,157,666	\$ 411,541	\$ 4,695,855	\$ 675,435	\$ 676,428	\$ 8,616,925
9 ¹	2022	\$ 1,838,019	\$ 389,489	\$ (923,581)	\$ 268,180	\$ 158,937	\$ 1,731,044
8	2021	\$ 1,701,157	\$ 285,430	\$ 571,137	\$ 201,990	\$ 151,336	\$ 2,911,050

¹ One senior officer from Farm Credit of Enid is included in 2022. The balance for this senior officer only includes compensation paid after November 1, 2022, when the merger took place.

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

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

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

Other represents holiday bonuses/gifts, payments pursuant to an employee agreement for retired employees, gifts for retired employees, employer match on a defined contribution plan available to all employees, service awards, and redemption of unused annual leave for retired employees.

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

Retirement Plan Overview – The CEO participates in two defined benefit retirement plans: (a) the Ninth Farm Credit District Pension Plan (Pension Plan), which is a qualified defined benefit plan and (b) the Former Ninth and Eleventh District Employers Pension Restoration Plan (Pension Restoration Plan), which is a nonqualified retirement plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. Certain eligible employees participate in the Farm Credit Foundations Nonqualified Deferred Compensation Plan, which allows individuals to defer compensation, and which restores the benefits limited in the 401(k) Plan by restrictions in the Internal Revenue Code. Information on pension benefits attributable to the senior officers and other highly compensated individuals as of December 31, 2023 follows.

President/CEO	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
John Grunewald	Pension Plan	45.61	\$ 3,538,596	\$ –
	Pension Restoration Plan	45.61	\$ 1,116,384	\$ –

Aggregate Number of Senior Officers/ Highly Compensated Individuals	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
6	Pension Plan	36.52	\$ 16,101,554	\$ –
3	Pension Restoration Plan	39.67	\$ 2,485,061	\$ –

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

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

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

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

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

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

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

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

RELATIONSHIP WITH COBANK, ACB (COBANK)

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

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

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

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

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

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 7, 2024, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2023 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 3302 Williams Avenue, Woodward, Oklahoma 73801-6944, or may be contacted by calling (580) 256-3465 or (800) 299-3465. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.

WE KNOW AGRICULTURE.

9 Locations to serve our shareholders.

ANADARKO

513 S. Mission St.
405.247.2421

ALTUS

3120 N. Main St.
580.482.3030

ALVA

219 Oklahoma Blvd.
580.327.0870

CLINTON

2600 Modelle Ave. 580.323.0342

ENID

1605 W. Owen K. Garriott
580.233.3489

ELK CITY

101 Carter Rd.
580.821.9200

GUYMON

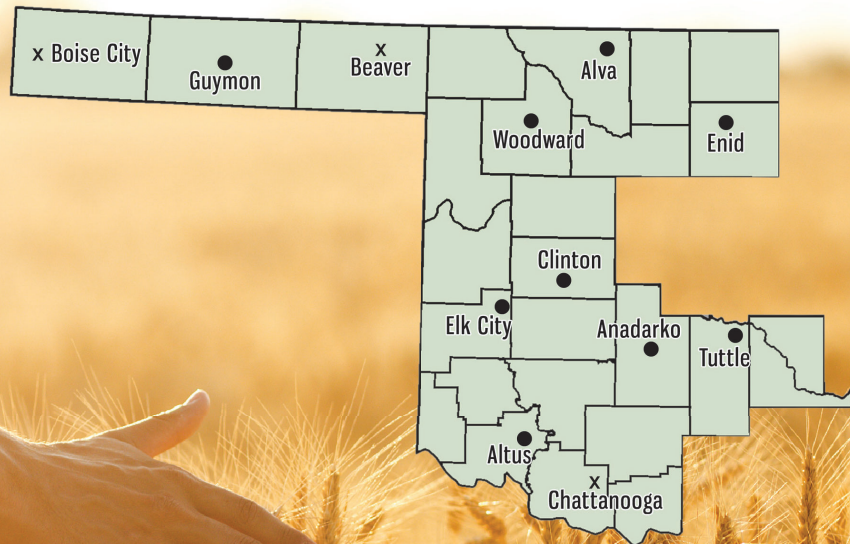
2143 Hwy. 64 N.
580.338.3828

TUTTLE

4955 Farm Credit Dr.
405.381.3000

WOODWARD

3302 Williams Ave.
580.256.3465



Farm Credit
WESTERN OKLAHOMA