

# **Farm Credit of Western Oklahoma, ACA**



**Quarterly Report  
March 31, 2021**

The shareholders' investment in Farm Credit of Western Oklahoma, ACA is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2020 CoBank Annual Report to Shareholders and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's web site, **[www.cobank.com](http://www.cobank.com)**, or may be obtained at no charge by contacting us at Farm Credit of Western Oklahoma, ACA, 3302 Williams Avenue, Woodward, Oklahoma 73801, or by calling 580-256-3465 or toll free 1-800-299-3465.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA (the Association) for the three months ended March 31, 2021, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2020 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

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. John Grunewald is the President and Chief Executive Officer of Western Oklahoma. The merged Association encompasses the territories previously served by the separate Associations.

Beginning in 2021, our balance sheet, income statement, average balances and related percentages include the effects of the merger with AgPreference. Prior year results have not been restated to reflect the impact of the 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.

Loan demand is strong and commodity prices have strengthened substantially over the past few months. Drought conditions continue to affect our territory to varying degrees, with the westernmost portion of the panhandle experiencing the most severe drought conditions. USDA, however, rates the majority of soil moisture conditions across the state of Oklahoma as adequate at this time. Presently, according to USDA, growing crop conditions across the state of Oklahoma are predominantly within the fair to good range—even though portions of the state are experiencing some level of drought.

With the strengthening of commodity prices, opportunities for our customers to forward price commodities at strong levels of profitability exist, however, the financial strength that part time farmers have relied upon from off farm income diversification remains under pressure. At this time, interest rates remain at historically low levels and the interest rate environment has greatly reduced the cost of borrowed capital.

With the current economic stress affecting America, due in large part to the COVID-19 pandemic, the uncertainty of continued strength in the value of agricultural real estate is also an economic concern to the agricultural industry. Average real estate values in Oklahoma have shown signs of strength over the past few years when compared to real estate values nation-wide, but 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 have increased by 1.07% in 2020, however the continuation of Oklahoma real estate appreciation remains in question given the other factors previously mentioned. Although land values have been increasing on average state-wide, there are pockets of weakness that have been noted and future land value studies will indicate to what level the current stress in the agricultural economy will impact land values across the region.

Although concern over the rural economic environment persists, significant equities remain across our customer base and opportunities for strong profitability are emerging. Solid financial managers continue to have the upper hand and strong financial management is necessary from our customer base as they work to increase profitability while strengthening liquidity.

The COVID-19 pandemic remains a global public health crisis, although vaccines have been deployed and are in various stages based on specific areas of the United States. The United States economy continues to have numerous impediments to a full recovery across certain sectors of the economy. Unemployment levels remain high and economic output remains challenged. We have been focused on responding to this crisis and protecting the health and safety of our employees while continuing to serve our customers. We cannot predict the severity and the duration of the impact of the COVID-19 pandemic. The COVID-19 operating environment continues to cause uncertainty on the Association's business, results of operations and financial condition.

The U.S. government has continued to institute various programs in support of the COVID-19 recovery. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval to participate as a lender in the PPP and has continued to provide funds to eligible borrowers during the first quarter of

2021. The impact the U.S. government support programs and stimulus on the broader agriculture economy and our customers in particular is uncertain at this time.

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

## **LOAN PORTFOLIO**

Loans outstanding at March 31, 2021, totaled \$1.19 billion, an increase of \$256.0 million, or 27.27%, from loans of \$938.7 million at December 31, 2020. The increase in loan volume was due to the merger with AgPreference, ACA, effective January 1, 2021.

## **RESULTS OF OPERATIONS**

Net income for the three months ended March 31, 2021, was \$3.4 million, an increase of \$635 thousand, or 22.69%, from the same period ended one year ago primarily due to increased net interest income due to increased loan volume as a result of the merger. The increase was partially offset by increased non-interest expense year-over-year.

For the three months ended March 31, 2021, net interest income was \$8.4 million, an increase of \$2.6 million, or 43.69%, compared with the three months ended March 31, 2020. Net interest income increased primarily as a result of the merger and the impact the merger had on loan volume as compared to the same period one year ago.

The provision for credit losses for the three months ended March 31, 2021, was \$235 thousand, an increase of \$152 thousand, or 183.13%, from the provision for credit losses for the same period ended one year ago. The provision for credit losses increased as a result of loan volume acquired in the merger and an increased risk profile in certain loans.

Noninterest income increased \$119 thousand during the first three months of 2021 compared with the first three months of 2020 primarily due to increased patronage refunds from CoBank. Also included in noninterest income in 2020 was a refund of \$188 thousand from Farm Credit System Insurance Corporation (FCSIC). They did not pay a refund in 2021. The refunds are our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2020 Annual Report to Shareholders for additional information.

Mineral income of \$104 thousand was recognized during the first three months of 2021. Of this amount, \$103 thousand was received from CoBank. The decrease for the three months ended March 31, 2021, compared with first three months of 2020 is primarily the result of a significant drop in crude oil and natural gas prices and production volumes in the first quarter of 2021.

During the first three months of 2021, noninterest expense increased \$1.9 million to \$5.9 million, primarily due to increased salaries and employee benefits. In addition, increased costs from our service provider, AgVantis, increased Farm Credit Insurance Fund premiums, merger related costs, and an increase in other noninterest expense contributed to the increase. Other noninterest expense was impacted mostly by an increase in public and member relations expense incurred due to increased marketing efforts. The recent merger was the primary cause of the overall increase in noninterest expense year over year.

## **CAPITAL RESOURCES**

Our shareholders' equity at March 31, 2021, was \$229.5 million, an increase from \$177.4 million at December 31, 2020. This increase is due to equity issued in connection with the merger, net income and the amortization of pension costs included in the net periodic benefit cost, offset by net stock reductions.

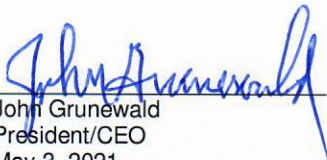
## **OTHER MATTERS**

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


We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, we are unable to predict whether or when LIBOR will cease to be available or if Secured Overnight Financing Rate (SOFR) or any other alternative reference rate will become the

benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers. Management has documented a LIBOR transition plan to address the phase out of LIBOR rates in the future, including any updates to processes and loan servicing technology.

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

  
\_\_\_\_\_  
John Grunewald  
President/CEO  
May 3, 2021

  
\_\_\_\_\_  
Jamey B. Mitchell  
CFO  
May 3, 2021

  
\_\_\_\_\_  
Steve Semmel  
Chairman of the Board  
May 3, 2021

## Consolidated Statement of Condition

(Dollars in Thousands)

	March 31 2021	December 31 2020
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 1,194,636	\$ 938,660
Less allowance for loan losses	2,043	1,827
Net loans	1,192,593	936,833
Cash	1,716	4,335
Accrued interest receivable	19,897	14,760
Investment in CoBank, ACB	39,139	30,828
Premises and equipment, net	6,685	4,991
Prepaid benefit expense	5,105	4,342
Other assets	3,733	5,510
<b>Total assets</b>	<b>\$ 1,268,868</b>	<b>\$ 1,001,599</b>
<b>LIABILITIES</b>		
Note payable to CoBank, ACB	\$ 1,018,345	\$ 804,672
Advance conditional payments	13,965	9,723
Accrued interest payable	1,430	1,138
Patronage distributions payable	-	3,250
Accrued benefits liability	658	528
Reserve for unfunded commitments	542	518
Other liabilities	4,461	4,416
<b>Total liabilities</b>	<b>1,039,401</b>	<b>824,245</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	2,393	2,058
Additional paid-in capital	81,946	33,619
Unallocated retained earnings	145,428	141,994
Accumulated other comprehensive income/(loss)	(300)	(317)
<b>Total shareholders' equity</b>	<b>229,467</b>	<b>177,354</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,268,868</b>	<b>\$ 1,001,599</b>

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

## Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended March 31	
	2021	2020
<b>INTEREST INCOME</b>		
Loans	\$ 12,233	\$ 10,730
<b>Total interest income</b>	<b>12,233</b>	<b>10,730</b>
<b>INTEREST EXPENSE</b>		
Note payable to CoBank, ACB	3,830	4,850
Other	10	39
<b>Total interest expense</b>	<b>3,840</b>	<b>4,889</b>
Net interest income	8,393	5,841
Provision for credit losses	235	83
Net interest income after provision for credit losses	8,158	5,758
<b>NONINTEREST INCOME</b>		
Financially related services income	2	2
Loan fees	5	18
Patronage distribution from Farm Credit institutions	982	688
Farm Credit Insurance Fund distribution	-	188
Mineral income	104	115
Other noninterest income	117	80
<b>Total noninterest income</b>	<b>1,210</b>	<b>1,091</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	2,916	2,167
Occupancy and equipment	189	162
Purchased services from AgVantis, Inc.	777	570
Farm Credit Insurance Fund premium	357	134
Merger related costs	167	-
Supervisory and examination costs	110	75
Other noninterest expense	1,418	942
<b>Total noninterest expense</b>	<b>5,934</b>	<b>4,050</b>
<b>Net income</b>	<b>3,434</b>	<b>2,799</b>
<b>COMPREHENSIVE INCOME</b>		
Amortization of retirement costs	17	4
<b>Total comprehensive income</b>	<b>\$ 3,451</b>	<b>\$ 2,803</b>

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

**Consolidated Statement of Changes in Shareholders' Equity**

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balance at December 31, 2019</b>	\$ -	\$ 2,026	\$ 33,619	\$ 134,095	\$ (81)	\$ 169,659
Comprehensive income				2,799	4	2,803
Stock issued		51				51
Stock retired		(32)				(32)
<b>Balance at March 31, 2020</b>	\$ -	\$ 2,045	\$ 33,619	\$ 136,894	\$ (77)	\$ 172,481
<b>Balance at December 31, 2020</b>	\$ -	\$ 2,058	\$ 33,619	\$ 141,994	\$ (317)	\$ 177,354
Comprehensive income				3,434	17	3,451
Stock issued		64				64
Stock retired	(10)	(72)				(82)
Equity issued in connection with merger	10	343	48,327			48,680
<b>Balance at March 31, 2021</b>	\$ -	\$ 2,393	\$ 81,946	\$ 145,428	\$ (300)	\$ 229,467

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



## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Western Oklahoma, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2020, are contained in the 2020 Annual Report to Shareholders. These unaudited first quarter 2021 financial statements should be read in conjunction with the 2020 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2020, as contained in the 2020 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2021. Descriptions of the significant accounting policies are included in the 2020 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

Effective January 1, 2021, AgPreference, ACA (AgPreference) was merged into Farm Credit Services of Western Oklahoma, ACA, (Western Oklahoma). Western Oklahoma acquired 100% of the assets and liabilities of 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 the merger was to create a stronger financial institution of greater capital, capacity and human resources to serve agriculture and rural Oklahoma. The effects of the merger are included in the Association's results of operations, balance sheet, average balances and related metrics beginning in 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 Balance Sheet reflects the merged balances as of March 31, 2021 and the balances for Western Oklahoma prior to January 1, 2021. The Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Shareholders' Equity reflect the results of the merged Association after January 1, 2021 and Western Oklahoma activity prior to January 1, 2021. Information presented in the Notes to the Consolidated Financial Statement for 2021 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 AgPreference stock that were converted in the merger and into the shares of Western Oklahoma stock with identical rights and attributes. For this reason, the conversion of AgPreference stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each 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 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 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 AgPreference at their acquisition-date fair value. The fair value of the net identifiable assets acquired (\$261.7 million) was substantially equal to the fair value of the equity interest exchanged

in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. A net increase of \$48.7 million was recorded in shareholders' equity related to the merger.

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

<b>Condensed Statement Of Net Assets Acquired</b>	January 1, 2021
<b>Assets</b>	
Net loans	\$ 244,852
Cash	468
Accrued interest receivable	4,129
Other assets	12,242
<b>Total Assets</b>	<b>\$ 261,691</b>
<b>Liabilities</b>	
Notes payable	\$ 210,241
Accrued interest payable	329
Other liabilities	2,441
<b>Total Liabilities</b>	<b>\$ 213,011</b>
<b>Fair Value of Net Assets Acquired</b>	<b>\$ 48,680</b>

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 changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans, which totaled \$248.1 million at January 1, 2021.

#### **Recently Adopted or Issued Accounting Pronouncements**

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The impact of the adoption was not material to the Association's financial condition or its results of operations. We have applied the optional accounting expedients to our loans by incorporating fallback language into these agreements.

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

## NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

<i>(dollars in thousands)</i>	March 31, 2021	December 31, 2020
Real estate mortgage	\$ 824,462	\$ 613,247
Production and intermediate-term	310,596	296,303
Agribusiness	41,775	25,538
Rural infrastructure	13,942	2,382
Rural residential real estate	1,452	1,190
Agricultural export finance	2,409	-
<b>Total loans</b>	<b>\$ 1,194,636</b>	<b>\$ 938,660</b>

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2021:

<i>(dollars in thousands)</i>	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 40,519	\$ 29,702	\$ 99,647	\$ -	\$ 140,166	\$ 29,702
Production and intermediate-term	31,990	4,363	-	-	31,990	4,363
Agribusiness	21,965	3,697	-	-	21,965	3,697
Rural infrastructure	13,942	-	-	-	13,942	-
Agricultural export finance	2,409	-	-	-	2,409	-
<b>Total</b>	<b>\$ 110,825</b>	<b>\$ 37,762</b>	<b>\$ 99,647</b>	<b>\$ -</b>	<b>\$ 210,472</b>	<b>\$ 37,762</b>

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

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

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

	<b>March 31, 2021</b>	December 31, 2020
Real estate mortgage		
Acceptable	<b>95.02%</b>	96.12%
OAEM	<b>3.41%</b>	2.20%
Substandard	<b>1.57%</b>	1.68%
Total	<b>100.00%</b>	100.00%
Production and intermediate-term		
Acceptable	<b>93.43%</b>	91.71%
OAEM	<b>4.42%</b>	6.20%
Substandard	<b>2.15%</b>	2.09%
Total	<b>100.00%</b>	100.00%
Agribusiness		
Acceptable	<b>95.06%</b>	93.20%
OAEM	<b>4.91%</b>	6.79%
Substandard	<b>0.03%</b>	0.01%
Total	<b>100.00%</b>	100.00%
Rural infrastructure		
Acceptable	<b>100.00%</b>	100.00%
Total	<b>100.00%</b>	100.00%
Rural residential real estate		
Acceptable	<b>100.00%</b>	100.00%
Total	<b>100.00%</b>	100.00%
Agricultural export finance		
Acceptable	<b>100.00%</b>	-
Total	<b>100.00%</b>	-
Total Loans		
Acceptable	<b>94.68%</b>	94.66%
OAEM	<b>3.68%</b>	3.58%
Substandard	<b>1.64%</b>	1.76%
Total	<b>100.00%</b>	100.00%

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

<i>(dollars in thousands)</i>	March 31, 2021	December 31, 2020
Nonaccrual loans		
Real estate mortgage	\$ 796	\$ -
Production and intermediate-term	364	2
Total nonaccrual loans	\$ 1,160	\$ 2
Accruing restructured loans		
Real estate mortgage	\$ 153	\$ 92
Total accruing restructured loans	\$ 153	\$ 92
Accruing loans 90 days past due		
Real estate mortgage	\$ 629	\$ 626
Total accruing loans 90 days past due	\$ 629	\$ 626
Total impaired loans	\$ 1,942	\$ 720

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

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	March 31, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	\$ 1,578	\$ 1,929		\$ 718	\$ 682	
Production and intermediate-term	364	2,008		2	1,364	
Total	\$ 1,942	\$ 3,937		\$ 720	\$ 2,046	
Total impaired loans:						
Real estate mortgage	\$ 1,578	\$ 1,929	\$ -	\$ 718	\$ 682	\$ -
Production and intermediate-term	364	2,008	-	2	1,364	-
Total	\$ 1,942	\$ 3,937	\$ -	\$ 720	\$ 2,046	\$ -

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

	For the Three Months Ended March 31, 2021		For the Three Months Ended March 31, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
<i>(dollars in thousands)</i>				
Impaired loans with a related allowance for loan losses:				
Production and intermediate-term	\$ -	\$ -	\$ 51	\$ -
Total	\$ -	\$ -	\$ 51	\$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	\$ 1,709	\$ -	\$ 1,024	\$ 16
Production and intermediate-term	369	-	3	-
Total	\$ 2,078	\$ -	\$ 1,027	\$ 16
Total impaired loans:				
Real estate mortgage	\$ 1,709	\$ -	\$ 1,024	\$ 16
Production and intermediate-term	369	-	54	-
Total	\$ 2,078	\$ -	\$ 1,078	\$ 16

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

	March 31, 2021					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
<i>(dollars in thousands)</i>						
Real estate mortgage	\$ 2,437	\$ 629	\$ 3,066	\$ 835,398	\$ 838,464	\$ 629
Production and intermediate-term	349	257	606	315,636	316,242	-
Agribusiness	-	-	-	41,992	41,992	-
Rural infrastructure	-	-	-	13,956	13,956	-
Rural residential real estate	-	-	-	1,465	1,465	-
Agricultural export finance	-	-	-	2,413	2,413	-
Total	\$ 2,786	\$ 886	\$ 3,672	\$ 1,210,860	\$ 1,214,532	\$ 629

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

A summary of changes in the allowance for loan losses is as follows:

<i>(dollars in thousands)</i>	Balance at December 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2021
Real estate mortgage	\$ 423	\$ -	\$ -	\$ 87	\$ 510
Production and intermediate-term	1,359	-	5	98	1,462
Agribusiness	43	-	-	12	55
Rural infrastructure	1	-	-	13	14
Rural residential real estate	1	-	-	1	2
<b>Total</b>	<b>\$ 1,827</b>	<b>\$ -</b>	<b>\$ 5</b>	<b>\$ 211</b>	<b>\$ 2,043</b>

<i>(dollars in thousands)</i>	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at March 31, 2020
Real estate mortgage	\$ 357	\$ -	\$ -	\$ 13	\$ 370
Production and intermediate-term	1,471	16	2	138	1,595
Agribusiness	30	-	-	3	33
Rural infrastructure	4	-	-	(1)	3
<b>Total</b>	<b>\$ 1,862</b>	<b>\$ 16</b>	<b>\$ 2</b>	<b>\$ 153</b>	<b>\$ 2,001</b>

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's 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 Three Months Ended March 31	
	2021	2020
Balance at beginning of period	\$ 518	\$ 445
Provision for/(Reversal of) reserve for unfunded commitment	24	(70)
<b>Total</b>	<b>\$ 542</b>	<b>\$ 375</b>

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at March 31, 2021		Recorded Investments in Loans Outstanding Ending Balance at March 31, 2021	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
<i>(dollars in thousands)</i>				
Real estate mortgage	\$ -	\$ 510	\$ 1,578	\$ 836,886
Production and intermediate-term	-	1,462	364	315,878
Agribusiness	-	55	-	41,992
Rural infrastructure	-	14	-	13,956
Rural residential real estate	-	2	-	1,465
Agricultural export finance	-	-	-	2,413
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,043</b>	<b>\$ 1,942</b>	<b>\$ 1,212,590</b>

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no TDRs during the three months ended March 31, 2021. The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first three months of 2021 and 2020. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at March 31, 2021 and December 31, 2020.

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

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
<i>(dollars in thousands)</i>				
Real estate mortgage	\$ 153	\$ 94	\$ -	\$ 2
<b>Total</b>	<b>\$ 153</b>	<b>\$ 94</b>	<b>\$ -</b>	<b>\$ 2</b>

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



### NOTE 3 – CAPITAL

On January 1, 2021, AgPreference was merged into Western Oklahoma and formed Western Oklahoma, ACA (Western Oklahoma). All shareholders of both AgPreference and Western Oklahoma associations received capital stock in Western Oklahoma in exchange for their stock which was then canceled. This exchange was made at the stock's par value.

A summary of select capital ratios based on a three-month average and minimums set by the Farm Credit Administration follows.

	As of March 31, 2021	As of December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	16.78%	16.58%	4.5%	2.5%	7.0%
Tier 1 capital ratio	16.78%	16.58%	6.0%	2.5%	8.5%
Total capital ratio	16.98%	16.85%	8.0%	2.5%	10.5%
Permanent capital ratio	16.80%	16.62%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	15.38%	15.63%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	16.96%	17.16%	1.5%	-	1.5%

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

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

<i>(dollars in thousands)</i>	For the Three Months Ended March 31	
	2021	2020
Pension and other benefit plans:		
Beginning balance	\$ (317)	\$ (81)
Amounts reclassified from accumulated other comprehensive income/loss	17	4
Net current period other comprehensive income/(loss)	17	4
Ending balance	\$ (300)	\$ (77)

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
	For the Three Months Ended March 31		
	2021	2020	
Pension and other benefit plans:			Salaries and employee benefits
Net actuarial income	\$ 17	\$ 4	
Total reclassifications	\$ 17	\$ 4	

#### NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 of the 2020 Annual Report to Shareholders for a more complete description.

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

<i>(dollars in thousands)</i>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
<b>March 31, 2021</b>	\$ 880	\$ -	\$ -	\$ 880
December 31, 2020	\$ 766	\$ -	\$ -	\$ 766

The Association had no liabilities measured at fair value on a recurring basis at March 31, 2021 or December 31, 2020.

The Association had no assets or liabilities measured at fair value on a non-recurring basis at March 31, 2021 or December 31, 2020.

#### Valuation Techniques

As more fully discussed in Note 2 of the 2020 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

##### *Assets Held in Non-Qualified Benefits Trusts*

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

#### NOTE 5 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 3, 2021, which is the date the financial statements were issued, and no material subsequent events were identified.