2011

ANNUAL REPORT

FARM CREDIT OF WESTERN OKLAHOMA, ACA

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2011	2010	2009	2008	2007
Statement of Condition Data					
Loans	**$ 381,888**	$ 392,591	$ 342,780	$ 322,796	$ 254,541
Less allowance for loan losses	**2,149**	2,056	1,994	2,069	1,523
Net loans	**379,739**	390,535	340,786	320,727	253,018
Investment in U.S. AgBank, FCB	**13,215**	10,825	9,614	7,805	7,410
Other assets	**12,486**	11,361	10,354	13,081	12,154
Total assets	**$ 405,440**	$ 412,721	$ 360,754	$ 341,613	$ 272,582
Obligations with maturities of one year or less	**$ 10,541**	$ 5,860	$ 4,427	$ 5,751	$ 5,805
Obligations with maturities longer than one year	**315,791**	335,585	288,312	269,788	204,094
Total liabilities	**326,332**	341,445	292,739	275,539	209,899
Protected borrower stock	**3**	5	9	10	29
Capital stock	**1,383**	1,396	1,328	1,265	1,286
Unallocated retained earnings	**77,722**	69,875	66,678	64,799	61,368
Total shareholders' equity	**79,108**	71,276	68,015	66,074	62,683
Total liabilities and shareholders' equity	**$ 405,440**	$ 412,721	$ 360,754	$ 341,613	$ 272,582

	For the Year Ended December 31				
	2011	2010	2009	2008	2007
Statement of Income Data					
Net interest income	**$ 10,389**	$ 10,103	$ 9,380	$ 8,607	$ 6,935
Patronage distribution from U.S. AgBank, FCB	**3,669**	527	152	1,268	1,481
Tax-free recapitalization distribution due to AgBank merger	**2,390**	-	-	-	-
Provision for loan losses/(Loan loss reversal)	**67**	405	921	(1,071)	(162)
Noninterest expense, net	**7,029**	5,626	5,676	5,494	4,572
Provision for income taxes	**5**	2	58	21	13
Net income	**$ 9,347**	$ 4,597	$ 2,877	$ 5,431	$ 3,993
Key Financial Ratios					
For the Year					
Return on average assets	**2.36%**	1.20%	0.82%	1.81%	1.59%
Return on average shareholders' equity	**12.53%**	6.52%	4.26%	8.18%	6.34%
Net interest income as a percentage of average earning assets	**2.77%**	2.79%	2.84%	3.05%	2.96%
Net (recoveries)/charge-offs as a percentage of average net loans	**(0.01%)**	0.10%	0.30%	(0.58%)	(0.03%)
At Year End					
Shareholders' equity as a percentage of total assets	**19.51%**	17.27%	18.85%	19.34%	23.00%
Debt as a ratio to shareholders' equity	**4.13:1**	4.79:1	4.30:1	4.17:1	3.35:1
Allowance for loan losses as a percentage of loans	**0.56%**	0.52%	0.58%	0.64%	0.60%
Permanent capital ratio	**16.58%**	16.16%	17.05%	18.95%	23.14%
Total surplus ratio	**16.23%**	15.80%	16.67%	18.56%	22.64%
Core surplus ratio	**16.03%**	15.62%	16.67%	18.56%	21.72%
Net Income Distribution					
Cash patronage distributions paid	**$ 1,400**	$ 1,000	$ 1,998	$ 2,003	$ 1,953
Cash patronage declared	**$ 1,500**	$ 1,400	$ 1,000	$ 2,000	$ 2,003
Other					
Loans serviced for U.S. AgBank, FCB	**$ -**	$ 71	$ 131	$ 152	$ 274

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the year ended December 31, 2011. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The accompanying financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

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

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of approximately 85 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region from the Black Mesa in the northwest part of the Panhandle in Cimarron County to near Carnegie in the southeast part of Washita County in Oklahoma. The counties in our territory are listed in Note 1 of the accompanying financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, fee appraisals, and advance conditional payments. 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 obtained the funding for our lending and operations from a Farm Credit Bank. Our funding bank, U.S. AgBank, FCB (AgBank), was a cooperative of which we were a member. At December 31, 2011, AgBank, its related associations, and AgVantis, Inc. (AgVantis), a technology service corporation, were referred to as the District.

In December 2010, the boards of directors of AgBank, our funding bank, and CoBank, ACB (CoBank) approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the FCA, the Farm Credit System regulator. On June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. On September 8, 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merger was effective on January 1, 2012. Beginning January 1, 2012, we receive our funding from the merged bank. In the following disclosure, our funding bank both prior to and after the merger will be referred to as "the Bank". The merged bank will do business under the CoBank name and be headquartered just outside Denver, Colorado, but will maintain a presence and operations in Wichita and Sacramento. Robert B. Engel, CoBank's president and chief executive officer, is the chief executive of the merged bank. CoBank had total assets of $63.29 billion and capital of $4.90 billion at December 31, 2011.

We, along with the borrower's investment in our Association, are materially affected by the Bank's financial condition and results of operations. The AgBank District and 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 or may be contacted by calling (580) 256-3465 or (800) 299-3465. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our current Services Agreement with AgVantis expires on December 31, 2013. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

For many years, agriculture experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity, our financial results have been positively impacted. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. In 2009 and 2010, certain agricultural sectors experienced significant stress, which negatively impacted credit quality measures. Adversely affected has been dairy, poultry and ethanol operations, while grain producers have been positively affected. Overall conditions were satisfactory in 2011, but dairy continues to reflect some stress, and high feed costs are stressing margins in the meat protein complexes, especially poultry. The negative impact to us from these less favorable conditions is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers.

During 2011, economic conditions in our region were generally favorable due to increased land and collateral values, commodity prices, and off farm income sources. Expansion in the oil, gas and wind energy have had a major favorable impact on our region. The drought of 2011 impacted our grain and cattle producers. This did reduce demand for credit and our loan volume. However, this was offset by income from oil and gas.

LOAN PORTFOLIO

Total loan volume was $381.9 million at December 31, 2011, a decrease of $10.7 million, or 2.73%, from loans at December 31, 2010 of $392.6 million, and an increase of $39.1 million, or 11.41%, from loans at December 31, 2009 of $342.8 million. The decrease in loans was due to customer demand related to weather conditions. The types of loans outstanding at December 31 are reflected in the following table.

	2011		2010		2009	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$ 242,137**	**63.4%**	$ 229,858	58.5%	$ 205,981	60.1%
Production and intermediate-term loans	**126,506**	**33.1%**	149,201	38.0%	128,676	37.5%
Agribusiness loans to:						
Cooperatives	**2,644**	**0.7%**	5,714	1.5%	3,069	0.9%
Processing and marketing	**6,120**	**1.6%**	3,843	1.0%	2,700	0.8%
Farm related business	**375**	**0.1%**	287	0.1%	375	0.1%
Rural residential real estate loans	**4,106**	**1.1%**	3,688	0.9%	1,979	0.6%
Total	**$ 381,888**	**100.0%**	$ 392,591	100.0%	$ 342,780	100.0%

Real estate mortgage volume increased to $242.1 million, compared with $229.9 million at year-end 2010, primarily due to increased demand in the agriculture real estate market. 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 production and intermediate-term volume decreased 15.21% to $126.5 million compared with 2010 loan volume of $149.2 million, primarily due to the drought conditions. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Real estate mortgage and production and intermediate-term loans are 96.53% of our loan volume. All processing and marketing and approximately 17% of all production and intermediate-term volume was purchased interests in loans at December 31, 2011.

Portfolio Diversification

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

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

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

(dollars in thousands)	**2011**	2010	2009
Participations purchased	**$ 55,041**	$ 71,566	$ 62,709
Participations sold	**$ 11,309**	$ 10,935	$ 10,428

We have no purchased loans, 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 loans outside our territory, which are included in Other in the following table.

	2011	2010	2009
Beaver	**2.65%**	2.36%	2.72%
Beckham	**1.80%**	1.19%	1.30%
Cimarron	**2.83%**	2.55%	2.46%
Custer	**6.38%**	5.97%	6.51%
Dewey	**5.00%**	4.62%	4.65%
Ellis	**3.22%**	3.87%	3.60%
Harper	**5.57%**	6.05%	6.86%
Roger Mills	**3.29%**	4.80%	4.86%
Texas	**7.91%**	7.87%	7.99%
Washita	**5.40%**	6.48%	6.29%
Woods	**6.82%**	6.35%	6.78%
Woodward	**7.15%**	8.50%	8.63%
Other – Oklahoma	**17.47%**	13.90%	10.76%
Other – Kansas	**15.38%**	15.82%	12.89%
Other - Texas	**6.97%**	5.65%	7.67%
Other	**2.16%**	4.02%	6.03%
Total	**100.00%**	100.00%	100.00%

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

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

We are a party to an Agreement Providing Territorial Concurrence (Agreement) with Associations in New Mexico, Colorado, Kansas and Oklahoma. This Agreement eliminates territorial restrictions and allows either party to make loans in the other's territory.

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.

	December 31		
SIC Category	**2011**	2010	2009
Beef	**62.28%**	58.85%	60.65%
Cash grain/Corn/Sorghum	**13.83%**	13.89%	10.47%
Wheat	**11.48%**	11.74%	12.08%
Peanuts/Cotton/Peppers/Watermelon	**1.86%**	1.37%	0.96%
Landlords	**1.80%**	1.21%	1.55%
Hay	**1.17%**	1.28%	1.32%
Hogs	**1.08%**	1.79%	2.07%
Dairy	**1.06%**	2.58%	3.62%
Ag Services	**1.06%**	1.53%	0.95%
Nursery	**0.31%**	0.99%	0.81%
Harvesting	**0.23%**	0.86%	1.28%
Poultry	**0.21%**	0.20%	0.90%
Other	**3.63%**	3.71%	3.34%
Total	**100.00%**	100.00%	100.00%

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

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our loan volume at December 31, 2011, approximately 52% consists of borrowers with income not solely from agricultural sources, an increase from 40% for 2010, and 37% for 2009. The increase was primarily due to an increase in oil and gas revenue.

The principal balance outstanding at December 31, 2011 for loans $250 thousand or less accounted for 36.94% of loan volume and 88.07% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loan principal by dollar size at December 31.

	2011		2010		2009	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 141,068**	**2,119**	$ 141,546	2,130	$ 127,234	1,980
$251 - $500	**48,307**	**136**	49,601	142	42,148	119
$501 - $1,000	**60,302**	**87**	54,870	79	44,621	63
$1,001 - $5,000	**132,211**	**64**	146,574	72	117,580	60
$5,001 - $25,000	**–**	**–**	–	–	11,197	2
Total	**$ 381,888**	**2,406**	$ 392,591	2,423	$ 342,780	2,224

Approximately 25% of our loan volume is attributable to 18 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $19.6 million at year-end 2011, $17.0 million at year-end 2010 and $14.5 million at year-end 2009 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. 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, 2011.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 50,786	$ 53,604	$ 913	$ 287	$ 105,590
Standby letters of credit	109	51	15	–	175
Commercial letters of credit	–	1,755	–	–	1,755
Total commitments	$ 50,895	$ 55,410	$ 928	$ 287	$ 107,520

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

High Risk Assets

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

(dollars in thousands)	**2011**	2010	2009
Nonaccrual loans:			
Real estate mortgage	**$ –**	$ 72	$ 111
Production and intermediate-term	**320**	2,509	3,285
Agribusiness	**128**	–	–
Rural residential real estate	**1**	–	–
Total nonaccrual loans	**449**	2,581	3,396
Accruing restructured loans:			
Real estate mortgage	**–**	–	135
Accruing loans 90 days past due:			
Real estate mortgage	**390**	–	128
Total high risk assets	**$ 839**	$ 2,581	$ 3,659
Nonaccrual loans to total loans	**0.12%**	0.66%	0.99%
High risk assets to total loans	**0.22%**	0.66%	1.07%
High risk assets to total shareholders' equity	**1.06%**	3.62%	5.38%

We had no other property owned for the years presented.

Total high risk assets decreased $1.7 million, or 67.49%, to $839 thousand at December 31, 2011 compared with year-end 2010 primarily due to payoffs. Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $2.1 million compared with December 31, 2010 due to the paydown of one large cattle account. Total nonaccrual volume is minimal and 92% of the nonaccrual volume attributable to two customers. The following table provides additional information on nonaccrual loans as of December 31.

(dollars in thousands)	**2011**	2010	2009
Nonaccrual current as to principal and interest	**$ 34**	$ 2,395	$ 2,991

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

There were no accruing restructured loans including related accrued interest at year-end 2011 and 2010. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

High risk asset volume is anticipated to increase in the future due to the volatility and uncertainty in the general economy and the extensive drought conditions in our territory.

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. Below are the classification definitions.

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

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

	2011	2010	2009
Acceptable	**98.25%**	95.73%	93.97%
OAEM	**1.33%**	3.38%	4.28%
Substandard	**0.42%**	0.89%	1.75%
Total	**100.00%**	100.00%	100.00%

During 2011, overall credit quality improved due to the continued favorable economic climate in the area. Loans classified as Acceptable and OAEM were 99.58% at December 31, 2011 and 99.11% at December 31, 2010. We had no loans classified as Doubtful or Loss for any of the three years presented. Even with the challenges in the past few years, the financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. 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. While credit quality is anticipated to remain sound in 2012, we expect that the less favorable economic conditions and less government support programs could lead to future weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased, however remained at a low level of .37% at December 31, 2011, compared with 0.15% at December 31, 2010.

Allowance for Loan Losses

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

(dollars in thousands)	**2011**	2010	2009
Balance at beginning of year	**$ 2,056**	$ 1,994	$ 2,069
Charge-offs:			
Production and intermediate-term	**57**	343	997
Recoveries:			
Production and intermediate-term	**83**	–	1
Net (recoveries)/charge-offs	**(26)**	343	996
Provision for loan losses	**67**	405	921
Balance at December 31	**$ 2,149**	$ 2,056	$ 1,994
Net (recoveries)/charge-offs to average net loans	**(0.01%)**	0.10%	0.30%

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

(dollars in thousands)	**2011**	2010	2009
Real estate mortgage	**$ 54**	$ 188	$ 230
Production and intermediate-term	**2,018**	1,828	1,704
Agribusiness	**73**	37	57
Rural residential real estate	**4**	3	3
Total	**$ 2,149**	$ 2,056	$ 1,994

The allowance for loan losses increased $93 thousand from December 31, 2010, to $2.1 million at December 31, 2011. The increase in allowance for loan losses was primarily due to an increase in provision for loan losses related to the drought. Net recoveries of $26 thousand were recorded during 2011. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2011	2010	2009
Allowance as a percentage of:			
Loans	**0.56%**	0.52%	0.58%
Impaired loans	**256.14%**	79.66%	54.50%
Nonaccrual loans	**478.62%**	79.66%	58.72%

Young, Beginning and Small Farmers and Ranchers Program

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

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

The following table outlines our percentage of YBS loans as a percentage of 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 2007 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a loan may be included in multiple categories as each loan is included in each category in which the definition was met.

	USDA	**2011**	2010	2009
Young	7.50%	**21.52%**	20.86%	20.95%
Beginning	25.75%	**23.14%**	23.22%	23.11%
Small	92.48%	**60.98%**	60.55%	63.32%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and less by the USDA, while FCA definitions include farmers

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

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

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

In conjunction with our YBS goals, in 2011 we held two meetings with the YBS Advisory Committee from Elk City and took this group of individuals to Washington D.C. to meet with USDA, Oklahoma Senators and Congressmen, National Cattlemen's Beef Association, Farm Bureau and the FCA. We continued YBS outreach programs including the Take-one-off Program, whereby interest rates are reduced by one percent for individuals under 35, for up to 3 years. We continued to offer and obtain FSA guarantees, continued to support area 4-H and FFA programs through donations and sponsorships and continued to provide college scholarships.

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

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

	New Lending		**Total Portfolio**	
	Goal	**Actual**	**Goal**	**Actual**
Young	$ 10,000	$ 36,192	$ 70,000	$ 79,994
Beginning	$ 15,000	$ 22,852	$ 80,000	$ 77,943
Small	$ 25,000	$ 45,078	$ 140,000	$ 151,225

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

CREDIT RISK MANAGEMENT

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

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 25% of our permanent capital. Through lending delegations, the Bank restricts individual loan size limits to one borrower to 15% of our permanent capital; exceptions must be reported to the Bank. Within these parameters, we set our own lending limits to manage loan concentration risk. Lending limits have been established for individual loan size, commodity type, special lending programs and geographic concentrations. We have adopted an individual lending limit maximum of 10% of permanent capital for our highest quality borrowers.

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

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is also 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 which 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. The PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate. This Model also serves as the basis for economic capital modeling.

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2011, we recorded net income of $9.3 million, compared with $4.6 million in 2010, and $2.9 million in 2009. The increase in 2011 was primarily due to patronage income from AgBank as well as income from a recapitalization distribution in anticipation of the Bank merger on January 1, 2012. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2011 vs. 2010**	2010 vs. 2009
Net income, prior year	**$ 4,597**	$ 2,877
Increase/(Decrease) from changes in:		
Interest income	**(361)**	946
Interest expense	**647**	(223)
Net interest income	**286**	723
Provision for loan losses	**338**	516
Noninterest income	**5,193**	459
Noninterest expense	**(1,064)**	(34)
Provision for income taxes	**(3)**	56
Total increase in net income	**4,750**	1,720
Net income, current year	**$ 9,347**	$ 4,597

Return on average assets increased to 2.36% from 1.20% in 2010, and return on average shareholders' equity increased to 12.53% from 6.52% in 2010, primarily as a result of an increase the noninterest income.

Net Interest Income

Net interest income for 2011 was $10.4 million compared with $10.1 million for 2010 and $9.4 million for 2009. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased average loan volume. The table below provides an analysis of the individual components of the change in net interest income during 2011 and 2010.

(dollars in thousands)	**2011 vs. 2010**	2010 vs. 2009
Net interest income, prior year	**$ 10,103**	$ 9,380
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(1,009)**	(325)
Interest rates paid	**894**	635
Volume of interest-bearing assets and liabilities	**385**	745
Interest income on nonaccrual loans	**16**	(332)
Increase in net interest income	**286**	723
Net interest income, current year	**$ 10,389**	$ 10,103

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		
	2011	2010	2009
Net interest margin	**2.77%**	2.79%	2.84%
Interest rate on:			
Average loan volume	**4.86%**	5.14%	5.33%
Average debt	**2.46%**	2.75%	2.98%
Interest rate spread	**2.40%**	2.39%	2.35%

There was only a slight increase in interest rate spread, 1 basis point due to a decrease of 28 basis points in interest rates on average loan volume and a 29 basis point decrease in interest rates on average debt. The decrease in net interest margin in addition to the change in spread was due to lower earnings on our own capital.

Provision for Loan Losses/(Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable losses in our loan portfolio. We recorded net provision for loan losses of $67 thousand in 2011, compared with $405 thousand in 2010 and $921 thousand in 2009. The provision for loan losses recorded during 2011 was primarily due to the exceptional drought occurring throughout our territory along with partial charge-offs of two equipment loans offset partially by a recovery on a previously charged-off cattle loan and improved credit quality. The provision for loan losses recorded in 2010 was primarily due to increased loan volume and by partial charge-offs of two livestock related loans. The provision for loan losses recorded in 2009 was primarily due to the partial charge-offs of two livestock related loans.

Noninterest Income

During 2011, we recorded noninterest income of $6.2 million, compared with $1.0 million in 2010 and $541 thousand in 2009. Patronage distributions from AgBank are our primary source of noninterest income. In March 2011, we received cash patronage from AgBank as a result of its 2010 earnings. AgBank also declared patronage in December 2011, prior to its merger with CoBank, on its 2011 earnings which we accrued accordingly. This resulted in AgBank patronage income of $3.7 million in 2011 as compared with $527 thousand in 2010 and $152 thousand in 2009. AgBank patronage distributions are paid in cash and not in stock. Further, pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction in order to align all associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such association. The attributed surplus is a Bank equity representing prior year earnings. The exchange results in non-interest income of $2.4 million being recognized and a corresponding increase in the Investment in Bank. This non-cash income would only be available for patronage to our members upon a cash redemption of the stock by the Bank, which redemption would likely be remote.

During 2010, we received from Farm Credit System Insurance Company (FCSIC) a distribution of $338 thousand representing our allocated portion of the excess amount in the System's insurance fund above the 2% secure base amount. As a result, our noninterest income increased compared with 2009. No such distribution was made in 2011. Noninterest income also includes loan fees, financially related services income and other noninterest income.

Noninterest Expense

Noninterest expense for 2011 increased $1.1 million, or 17.45%, to $7.2 million compared with 2010. Noninterest expense for each of the three years ended December 31 is summarized below:

				Percent of Change	
(dollars in thousands)	**2011**	2010	2009	**2011/2010**	2010/2009
Salaries & employee benefits	**$ 3,955**	$ 3,214	$ 3,148	**23.1%**	2.1%
Occupancy & equipment	**330**	328	339	**0.6%**	(3.2%)
Purchased services from AgVantis	**499**	432	365	**15.5%**	18.4%
Supervisory & examination costs	**143**	126	105	**13.5%**	20.0%
Other	**2,042**	1,836	1,530	**11.2%**	20.0%
Total operating expense	**6,969**	5,936	5,487	**17.4%**	8.2%
Farm Credit Insurance Fund premium	**194**	163	578	**19.0%**	(71.8%)
Total noninterest expense	**$ 7,163**	$ 6,099	$ 6,065	**17.5%**	0.56%

For the year ended December 31, 2011, total operating expense increased $1,033, or 17.40%, compared with the year ended December 31, 2010, primarily due to overall increases in operating costs. During the past five years we have had good growth in high quality loan volume. This expansion has resulted in a need for more operating capacity required to service the additional loans. Salaries and employee benefits increased due to normal raises, increased incentive payments and rising health care and pension expense. Other expenses have increased due to increased public and member relations, donations to youth programs, professional purchased services, and travel primarily due to increased fuel costs, training and director expenses. Insurance Fund premium increased $31 thousand to $194 thousand due to an increase in the premium rate and an increase in average loan volume. Premium rates were 6 basis points during 2011 compared with 5 basis points in 2010 and 20 basis points during 2009.

Provision for income taxes

We recorded $5 thousand in provision for income taxes during 2011, compared with $2 thousand in 2010 and $58 thousand in 2009. Tax expense was impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 9 for additional details.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with the Bank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow and maximize debt reduction. Our direct loan with the Bank, cash on hand and 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 the Bank. Our note payable to the Bank is collateralized by a pledge to the Bank 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) which was extended through May 31, 2013 with the merger of AgBank and CoBank on January 1, 2012. The annual average principal balance of the note payable to AgBank was $311.3 million in 2011, $304.7 million in 2010 and $274.0 million in 2009.

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

Interest Rate Risk

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

Funds Management

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

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2011 totaled $79.1 million, compared with $71.3 million at December 31, 2010 and $68.0 million at December 31, 2009. The increase of $7.8 million in shareholder's equity reflects net income and net stock issuances, partially offset by patronage refunds. Our capital position is reflected in the following ratio comparisons.

	2011	2010	2009
Debt to shareholders' equity	**4.13:1**	4.79:1	4.30:1
Shareholders' equity as a percent of net loans	**20.83%**	18.25%	19.96%
Shareholders' equity as a percent of total assets	**19.51%**	17.27%	18.85%

Debt to shareholders' equity decreased and shareholders' equity as a percent of net loans and of total assets increased from 2010 primarily due to earnings and a decrease in loan volume.

Retained Earnings

Our retained earnings increased $7.8 million to $77.7 million at December 31, 2011 from $69.9 million at December 31, 2010. The increase was a result of net income of $9.3 million, partially offset by $1.5 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, this includes increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $1.4 million in 2011, $1.0 million in

2010 and $2.0 million in 2009. During 2011, we declared patronage distributions of $1.5 million to be paid in April 2012.

Stock

Our total stock decreased $15 thousand to $1.4 million at December 31, 2011. The decrease was due to $174 thousand of stock retirements, partially offset by $159 thousand of stock issuances. We require a stock investment for each borrower. The current initial investment requirement is the lesser of one thousand dollars or 2.00% of the borrower's combined loan volume.

Capital Plan and Regulatory Requirements

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

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

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

	Regulatory Minimum	**2011**	2010	2009
Permanent capital ratio	7.00%	**16.58%**	16.16%	17.05%
Total surplus ratio	7.00%	**16.23%**	15.80%	16.67%
Core surplus ratio	3.50%	**16.03%**	15.62%	16.67%

As of December 31, 2011, we exceeded the regulatory minimum capital ratios and are expected to do so throughout 2012. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2011, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

REGULATORY MATTERS

As of December 31, 2011, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

The FCA is considering the promulgation of Tier 1 and Tier 2 capital standards for Farm Credit System institutions. The Tier 1/Tier 2 capital structure would be similar to the capital tiers delineated in the Basel Accord that the other Federal financial regulatory agencies have adopted for the banking organizations they regulate. The notices of proposed rulemaking are planned for the second and third quarters of 2012.

GOVERNANCE

Board of Directors

We are governed by a nine member board that provides direction and oversees our management. Of these directors, eight are elected by the shareholders and one is 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 4 members of the Board of Directors. During 2011, 3 meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

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

Compensation Committee

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

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- “plain English” disclosures;
- officer certification of accuracy and completeness of the consolidated financial statements; and,
- information disclosure through our website.

FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses

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

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

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

CUSTOMER PRIVACY

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

Farm Credit
OF WESTERN OKLAHOMA

Our roots run deep.

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866 903-0870
Fax 580 327-6952

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580 323-0342
800 722-3004
Fax 580 323-0650

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Elk City, OK 73644
580 821-9200
888 821-9202
Fax 580 821-9208

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866 691-2267
Fax 580 338-5111

WOODWARD
3302 Williams Ave.
Woodward, OK 73801
580 256-3465
800 299-3465
Fax 580 256-5982

REPORT OF MANAGEMENT

The financial statements of Farm Credit of Western Oklahoma, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2011 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, U.S. AgBank, FCB's Internal Audit staff performed audits of the accounting records, reviewed accounting systems and internal controls, and recommended improvements as appropriate. The financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who also conduct a review of internal controls to the extent necessary to comply with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

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

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

Jimmie Purvine
Chairman of the Board

John Grunewald
President and Chief Executive Officer

Jamie Shirkey
Chief Financial Officer

Farm Credit
OF WESTERN OKLAHOMA

Our roots run deep.

AUDIT COMMITTEE REPORT

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Fax 580 338-5111

WOODWARD
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Woodward, OK 73801
580 256-3465
800 299-3465
Fax 580 256-5982

The Audit Committee (Committee) includes 4 members from the Board of Directors of Farm Credit of Western Oklahoma, ACA (Association). In 2011, three 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 2011.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2011 were $18,023 for audit services, $6,300 for tax services and $720 for 2010 audit related services billed in 2011.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's financial statements for the year ended December 31, 2011 (the "Audited Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance). Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2011.

Lavern W. Phillips

Lavern W. Phillips, Chairman of the Audit Committee

<u>Audit Committee Members</u>
Jimmie Purvine
Steve Semmel
Ronald W. White

March 14, 2012

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2011	2010	2009
ASSETS			
Loans	**$ 381,888**	$ 392,591	$ 342,780
Less allowance for loan losses	**2,149**	2,056	1,994
Net loans	**379,739**	390,535	340,786
Cash	**3,113**	3,556	2,844
Accrued interest receivable	**5,114**	5,140	4,697
Investment in U.S. AgBank, FCB	**13,215**	10,825	9,614
Premises and equipment, net	**1,749**	1,786	1,873
Prepaid benefit expense	**521**	605	708
Other assets	**1,989**	274	232
Total assets	**$ 405,440**	$ 412,721	$ 360,754
LIABILITIES			
Note payable to U.S. AgBank, FCB	**$ 312,833**	$ 332,504	$ 285,135
Advance conditional payments	**8,365**	3,804	2,358
Accrued interest payable	**2,958**	3,081	3,177
Patronage distributions payable	**1,500**	1,400	1,000
Accrued benefits liability	**126**	144	162
Other liabilities	**550**	512	907
Total liabilities	**326,332**	341,445	292,739
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	**3**	5	9
Capital stock	**1,383**	1,396	1,328
Unallocated retained earnings	**77,722**	69,875	66,678
Total shareholders' equity	**79,108**	71,276	68,015
Total liabilities and shareholders' equity	**$ 405,440**	$ 412,721	$ 360,754

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

Consolidated Statement of Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2011	2010	2009
INTEREST INCOME			
Loans	**$ 18,210**	$ 18,571	$ 17,625
Total interest income	**18,210**	18,571	17,625
INTEREST EXPENSE			
Note payable to U.S. AgBank, FCB	**7,743**	8,426	8,183
Other	**78**	42	62
Total interest expense	**7,821**	8,468	8,245
Net interest income	**10,389**	10,103	9,380
Provision for loan losses	**67**	405	921
Net interest income after provision for loan losses	**10,322**	9,698	8,459
NONINTEREST INCOME			
Financially related services income	**33**	55	269
Loan fees	**15**	19	27
Patronage distribution from U.S. AgBank, FCB	**3,669**	527	152
Farm Credit Insurance Fund distribution	**-**	338	-
Tax-free recapitalization distribution due to AgBank merger	**2,390**	-	-
Other noninterest income	**86**	61	93
Total noninterest income	**6,193**	1,000	541
NONINTEREST EXPENSE			
Salaries and employee benefits	**3,955**	3,214	3,148
Occupancy and equipment	**330**	328	339
Purchased services from AgVantis, Inc.	**499**	432	365
Farm Credit Insurance Fund premium	**194**	163	578
Supervisory and examination costs	**143**	126	105
Other noninterest expense	**2,042**	1,836	1,530
Total noninterest expense	**7,163**	6,099	6,065
Income before income taxes	**9,352**	4,599	2,935
Provision for income taxes	**5**	2	58
Net income	**$ 9,347**	$ 4,597	$ 2,877

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2008	$ 10	$ 1,265	$ 64,799	$ 66,074
Net income			2,877	2,877
Stock issued	-	210		210
Stock retired	(1)	(147)		(148)
Patronage distributions:				
Cash			(1,000)	(1,000)
Other			2	2
Balance at December 31, 2009	9	1,328	66,678	68,015
Net income			4,597	4,597
Stock issued	-	208		208
Stock retired	(4)	(140)		(144)
Patronage distributions: Cash			(1,400)	(1,400)
Balance at December 31, 2010	5	1,396	69,875	71,276
Net income			9,347	9,347
Stock issued	-	159		159
Stock retired	(2)	(172)		(174)
Patronage distributions: Cash			(1,500)	(1,500)
Balance at December 31, 2011	**$ 3**	**$ 1,383**	**$ 77,722**	**$ 79,108**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 9,347**	$ 4,597	$ 2,877
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**272**	260	254
Provision for loan losses	**67**	405	921
Recapitalization distribution due to AgBank merger	**(2,390)**	-	-
Gains on sales of premises and equipment	**(12)**	(21)	(12)
Change in assets and liabilities:			
Decrease in deferred tax asset	**-**	-	54
Decrease/(Increase) in accrued interest receivable	**26**	(443)	(101)
Decrease/(Increase) in prepaid benefit expense	**84**	103	(78)
Increase in other assets	**(1,715)**	(42)	(29)
Decrease in accrued interest payable	**(123)**	(96)	(1,528)
Decrease in accrued benefits liability	**(18)**	(18)	(17)
Increase/(Decrease) in other liabilities	**38**	(395)	132
Total adjustments	**(3,771)**	(247)	(404)
Net cash provided by operating activities	**5,576**	4,350	2,473
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease/(Increase) in loans, net	**10,729**	(50,154)	(20,980)
Increase in investment in U.S. AgBank, FCB	**-**	(1,211)	(1,809)
Expenditures for premises and equipment, net	**(223)**	(152)	(152)
Net cash provided by/(used in) investing activities	**10,506**	(51,517)	(22,941)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayment of)/draw on note payable to U.S. AgBank, FCB	**(19,671)**	47,369	20,052
Increase/(Decrease) in advance conditional payments	**4,561**	1,446	(439)
Protected borrower stock retired	**(2)**	(4)	(1)
Capital stock retired	**(172)**	(140)	(147)
Capital stock issued	**159**	208	210
Cash patronage distributions paid	**(1,400)**	(1,000)	(1,998)
Net cash (used in)/provided by financing activities	**(16,525)**	47,879	17,677
Net (decrease)/increase in cash	**(443)**	712	(2,791)
Cash at beginning of year	**3,556**	2,844	5,635
Cash at end of year	**$ 3,113**	$ 3,556	$ 2,844
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 7,944**	$ 8,564	$ 9,773
Income taxes	**$ 2**	$ -	$ 6
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Recapitalization distribution due to AgBank merger	**$ 2,390**	$ -	$ -
Protected borrower stock converted to capital stock	**$ -**	$ -	$ -
Net (recoveries)/charge-offs	**$ (26)**	$ 343	$ 996
Patronage distributions payable	**$ 1,500**	$ 1,400	$ 1,000

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

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

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2011, the System was comprised of four Farm Credit Banks, one Agricultural Credit Bank and approximately 85 associations. With the merger of CoBank, ACB (CoBank) and U.S. AgBank, FCB (AgBank) effective January 1, 2012, the nation is currently served by three FCBs and the one ACB.

In December 2010, the boards of directors of AgBank, the Association's funding bank, and CoBank, ACB approved a Letter of Intent to pursue a merger. In March 2011, following unanimous votes by the boards of both banks, a merger application was submitted to the Farm Credit Administration (FCA), the Farm Credit System regulator. On June 22, 2011, the FCA granted preliminary approval of the merger, subject to certain conditions. On September 8, 2011, AgBank and CoBank announced that their voting shareholders approved the proposed plan of merger between the two banks. Final approval from the FCA was received in December 2011. The merger was effective on January 1, 2012. Beginning January 1, 2012, the Association receives funding from the merged bank, CoBank.

The merged bank will do business under the CoBank name and be headquartered just outside Denver, Colorado, but will maintain a presence and operations in Wichita and Sacramento. Robert B. Engel, CoBank's president and chief executive officer, is the chief executive of the merged bank. CoBank had total assets of $63.29 billion and capital of $4.90 billion at December 31, 2011.

At December 31, 2011, U.S. AgBank, FCB (AgBank), its related associations and AgVantis, Inc. (AgVantis) were collectively referred to as the District. Prior to the merger, AgBank provided the majority of funding to associations within the District and was responsible for supervising certain activities of the District Associations. As a result of the merger of the banks on January 1, 2012, CoBank will provide the funding to the Association. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to AgBank prior to its merger. On December 31, 2011, the AgBank District consisted of AgBank, 24 Agricultural Credit Association (ACA) parent companies, which each have two wholly owned subsidiaries, (a FLCA and a PCA), two FLCAs and AgVantis. On January 1, 2012, the merged CoBank District consists of CoBank, 27 ACAs and two FLCAs and AgVantis. In addition to the bank merger, two AgBank District associations merged effective January 1, 2012. In the following disclosure, the funding bank both prior to and after the merger will be referred to as "the Bank".

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

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

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

The Association also offers credit life insurance, fee appraisals and advance conditional payment accounts to borrowers.

The Association's financial condition may be impacted by factors affecting AgBank and/or CoBank. Certain District expenses are allocated to the Associations. Disclosure of certain accounting policies related to these costs is included in the U.S. AgBank District Annual Report to Shareholders (District's Annual Report). The District's Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting 3302 Williams Avenue, Woodward, Oklahoma 73801-6944 or calling (580) 256-3465 or (800) 299-3465. Upon request, Association shareholders will be provided with a copy of the U.S. AgBank District Annual Report, which includes the combined financial statements of AgBank and its related Associations, and AgVantis. The U.S. AgBank District Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. In addition, the District's Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities by the Insurance Corporation. Association shareholders also have available CoBank's annual report on CoBank's website.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In September 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Compensation – Retirement Benefits – Multiemployer Plans." The guidance is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and a postretirement benefits plan other than pension, which should help financial statement users better understand the financial health of significant plans that the employer participates. The additional disclosures include: a) a description of the nature of plan benefits, b) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and c) other quantitative information to help users understand the financial information about the plan. The amendments are effective for annual periods for fiscal years ending after December 15, 2012 for non-public entities. The amendments would be applied retrospectively for all prior periods presented. The adoption of this guidance will not impact financial results but will result in some additional disclosures.

In June 2011, the FASB issued guidance entitled, "Comprehensive Income – Presentation of Comprehensive Income." This guidance is intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements.

- A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income.
- In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income.

This guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance will not impact financial condition or results of operations, but will result in changes to the presentation of comprehensive income.

In May 2011, the FASB issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The significant amendments include clarifying that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy and expansion of the disclosures about fair value measurements. The most significant change will require entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. The adoption of this guidance will not impact the Association's financial condition or results of operations, but may result in additional disclosure requirements.

In January 2011, the FASB issued guidance entitled, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This guidance temporarily delayed the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about troubled debt restructurings (TDR) is for periods ending after December 15, 2011.

In April 2011, the FASB issued its guidance entitled, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a TDR. In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. For nonpublic entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this Standard should not have a material impact on the Association's financial condition or results of operations.

Below is a summary of our significant accounting policies.

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

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

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

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

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

The Association uses a two-dimensional loan rating model based on an internally generated combined system risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

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

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

   Investment in CoBank: Effective January 1, 2012, the Association's required investment in CoBank is in the form of Class A Stock. The investment may be patronage based stock and purchased stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense and improvements above certain thresholds are capitalized.

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

F. Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other interest bearing liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while non-restricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance conditional payments.

G. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. Detailed financial information for the Pension Plan may be found in the U.S. AgBank District Annual Report. The Pension Plan was closed to employees beginning January 1, 2007. 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.

H. Patronage Distribution from AgBank: Patronage distributions were historically made by AgBank annually. The Association historically recorded patronage distributions from AgBank upon receipt of the distribution. Effective December 31, 2011, the Association accrued the AgBank patronage from its 2011 earnings. This resulted in the Association recording two years of patronage income from AgBank in 2011. The accrued 2011 patronage is expected to be paid by CoBank to the Association in March 2012.

   Patronage Distribution from CoBank: Effective January 1, 2012, patronage distributions from CoBank will be accrued by the Association, rather than recorded when paid.

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

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

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from AgBank prior to January 1, 1993, the adoption date of FASB guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in AgBank, 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 AgBank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on AgBank's post-1992 unallocated earnings.

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

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

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds which relate to deferred compensation and the 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 include certain loans and other property owned.

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2011	2010	2009
Real estate mortgage	**$ 242,137**	$ 229,858	$ 205,981
Production and intermediate-term	**126,506**	149,201	128,676
Agribusiness:			
Loans to cooperatives	**2,644**	5,714	3,069
Processing and marketing	**6,120**	3,843	2,700
Farm related business	**375**	287	375
Rural residential real estate	**4,106**	3,688	1,979
Total loans	**$ 381,888**	$ 392,591	$ 342,780

The Association purchases or sells participation interests 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, 2011:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 27,682	$ 9,326	$ 274	$ 238	$ 27,956	$ 9,564
Production and intermediate-term	20,933	1,745	32	–	20,965	1,745
Agribusiness	6,120	–	–	–	6,120	–
Total	$ 54,735	$ 11,071	$ 306	$ 238	$ 55,041	$ 11,309

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

	December 31					
	2011		2010		2009	
SIC Category	**Amount**	**Percent**	Amount	Percent	Amount	Percent
Beef	**$ 237,840**	**62.28%**	$ 231,040	58.85%	$ 207,896	60.65%
Cash Grain/Corn/Sorghum	**52,815**	**13.83%**	54,531	13.89%	35,889	10.47%
Wheat	**43,841**	**11.48%**	46,090	11.74%	41,408	12.08%
Peanuts/Cotton/Peppers/Watermelon	**7,103**	**1.86%**	5,379	1.37%	3,291	0.96%
Landlords	**6,874**	**1.80%**	4,750	1.21%	5,313	1.55%
Hay	**4,468**	**1.17%**	5,025	1.28%	4,525	1.32%
Hogs	**4,124**	**1.08%**	7,027	1.79%	7,095	2.07%
Dairy	**4,048**	**1.06%**	10,129	2.58%	12,409	3.62%
Ag Services	**4,048**	**1.06%**	6,007	1.53%	3,256	0.95%
Nursery	**1,184**	**0.31%**	3,887	0.99%	2,776	0.81%
Harvesting	**878**	**0.23%**	3,376	0.86%	4,388	1.28%
Poultry	**802**	**0.21%**	785	0.20%	3,085	0.90%
Other	**13,863**	**3.63%**	14,565	3.71%	11,449	3.34%
Total	**$ 381,888**	**100.00%**	$ 392,591	100.00%	$ 342,780	100.00%

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

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

Credit enhancements with federal government agencies of $19,649 at year-end 2011, $16,988 at year-end 2010 and $14,484 at year-end 2009 were outstanding.

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

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

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

	2011	2010	2009
Real estate mortgage			
Acceptable	**98.25%**	95.96%	95.20%
OAEM	**1.35%**	3.81%	3.70%
Substandard	**0.40%**	0.23%	1.10%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**98.23%**	95.14%	91.71%
OAEM	**1.43%**	2.92%	5.43%
Substandard	**0.34%**	1.94%	2.86%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**98.57%**	98.65%	99.79%
OAEM	**–**	1.29%	–
Substandard	**1.43%**	0.06%	0.21%
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**98.75%**	97.10%	94.02%
OAEM	**–**	1.54%	3.44%
Substandard	**1.25%**	1.36%	2.54%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**98.25%**	95.73%	93.97%
OAEM	**1.33%**	3.38%	4.28%
Substandard	**0.42%**	0.89%	1.75%
Total	**100.00%**	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following presents information relating to impaired loans including accrued interest.

	December 31		
	2011	2010	2009
Nonaccrual loans:			
Current as to principal and interest	**$ 34**	$ 2,395	$ 2,991
Past due	**415**	186	405
Total nonaccrual loans	**449**	2,581	3,396
Impaired accrual loans:			
Restructured	**–**	–	135
90 days or more past due	**390**	–	128
Total impaired accrual loans	**390**	–	263
Total impaired loans	**$ 839**	$ 2,581	$ 3,659

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

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

	December 31		
(dollars in thousands)	**2011**	2010	2009
Nonaccrual loans			
Real estate mortgage	**$ –**	$ 72	$ 111
Production and intermediate-term	**320**	2,509	3,285
Agribusiness	**128**	–	–
Rural residential real estate	**1**	–	–
Total nonaccrual loans	**449**	2,581	3,396
Accruing restructured loans			
Real estate mortgage	**–**	–	135
Total accruing restructured loans	**–**	–	135
Accruing loans 90 days past due			
Real estate mortgage	**390**	–	128
Total accruing loans 90 days past due	**390**	–	128
Total impaired loans	**$ 839**	$ 2,581	$ 3,659

There was no other property owned for the years presented.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/11	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 390	$ 360		$ 99	$ 18
Production and intermediate-term	320	1,866		323	6
Loans to cooperatives	128	124		33	–
Rural residential real estate	1	3		1	–
Total	$ 839	$ 2,353		$ 456	$ 24

No impaired loans had a related allowance.

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

	Year Ended December 31		
	2011	2010	2009
Interest income recognized on:			
Nonaccrual loans	**$ 20**	$ 4	$ 336
Restructured	**–**	2	9
90 days or more past due	**4**	1	18
Interest income recognized on impaired loans	**$ 24**	$ 7	$ 363

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

	Year Ended December 31		
	2011	2010	2009
Interest income which would have been recognized under the original loan terms	**$ 118**	$ 253	$ 777
Less: interest income recognized	**20**	6	345
Interest income not recognized	**$ 98**	$ 247	$ 432

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2011.

	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	$ 1,037	$ 390	$ 1,427	$ 243,947	$245,374	$ 390
Production and intermediate-term	22	287	309	127,927	128,236	–
Agribusiness	–	128	128	9,115	9,243	–
Rural residential real estate	–	–	–	4,149	4,149	–
Total	$ 1,059	$ 805	$ 1,864	$ 385,138	$387,002	$ 390

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

A restructuring of a debt constitutes a troubled debt restructuring 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 troubled debt restructurings during 2011.

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

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2011
Real estate mortgage	$ 188	$ –	$ –	$ (134)	$ 54
Production and intermediate-term	1,828	57	83	164	2,018
Agribusiness	37	–	–	36	73
Rural residential real estate	3	–	–	1	4
Total	$ 2,056	$ 57	$ 83	$ 67	$ 2,149

	Allowance for Credit Losses Ending Balance at December 31, 2011		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2011	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 54	$ 390	$ 244,984
Production and intermediate-term	–	2,018	320	127,916
Agribusiness	–	73	128	9,115
Rural residential real estate	–	4	1	4,148
Total	$ –	$ 2,149	$ 839	$ 386,163

NOTE 4 – INVESTMENT IN AGBANK

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

For the merged bank, effective January 1, 2012, the Association is required to maintain an investment in CoBank equal to 4.00 percent of the prior year's average direct loan volume. Pursuant to the merger between CoBank and AgBank, AgBank undertook a recapitalization transaction in order to align all associations with CoBank's stock investment requirement. The recapitalization involved the tax-free issuance of AgBank common stock to each association in exchange for an equal amount of attributed surplus previously allocated on a patronage basis to such association. The investment in CoBank is composed of patronage based stock and purchased stock.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2011	2010	2009
Land	**$ 158**	$ 145	$ 145
Buildings and leasehold improvements	**2,427**	2,428	2,428
Furniture, equipment and automobiles	**1,439**	1,461	1,376
	4,024	4,034	3,949
Less: accumulated depreciation	**2,275**	2,248	2,076
Total	**$ 1,749**	$ 1,786	$ 1,873

NOTE 6 – NOTE PAYABLE TO AGBANK

The Association's indebtedness to the Bank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for a $375 million line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2011. Substantially all borrower loans are match-funded with the Bank. Payments and disbursements are made on the note payable to the Bank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by the Bank based on the terms and conditions of the borrowing. The weighted average interest rate was 2.49 percent for the year ended December 31, 2011. With the merger of AgBank and CoBank on January 1, 2012, the GFA was extended and will expire on May 31, 2013. The promissory note expires on April 30, 2012; however, the Association expects renewal of the line of credit. Upon expiration of the line of credit, undisbursed amounts available under the line of credit expire. So long as the Association is not in material default under the GFA, the Bank will continue to make advances (that do not exceed the amount payable under the promissory note) for undisbursed outstanding commitments on borrower loans which are not in default. The note payable to the Bank will continue until it has been fully discharged.

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

	2011	2010	2009
Committed funds	**$ 67,945**	$ 60,713	$ 59,604
Average rates	**0.29%**	0.41%	0.43%

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank gives approval to borrow elsewhere. The Bank, 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, 2011, the Association's notes payable was within the specified limitations.

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Protected Stock

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

B. 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.

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

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2011, the Association's permanent capital ratio was 16.58 percent, total surplus ratio was 16.23 percent and core surplus ratio was 16.03 percent.

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2011. Unless otherwise indicated all classes of stock have a par value of $5.00.

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

Class B — Common Stock (Voting, at-risk, 273,771 shares outstanding) - Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class C — Common Stock (Nonvoting, at-risk, 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 AgBank or to any person through direct sale.

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

Class F — Common Stock (Voting, protected, 545 shares outstanding) - Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.

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

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $1,400 in 2011, $1,000 in 2010 and $1,998 in 2009 and declared a $1,500 patronage in 2011 to be distributed in 2012.

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 2011, the Association allocated 16.08 percent of its patronage-sourced net income to its patrons.

NOTE 8 – PATRONAGE DISTRIBUTION FROM AGBANK

Patronage distributed from AgBank was in cash for the past three years; however, the amount declared in December was accrued and will be paid by CoBank in March 2012. Patronage paid or declared by AgBank to the Association was $3,669 in 2011, $527 in 2010 and $152 in 2009.

NOTE 9 – INCOME TAXES

The provision for income taxes follows.

	Year Ended December 31		
	2011	2010	2009
Current:			
Federal	**$ 4**	$ 1	$ 3
State	**1**	1	1
Deferred:			
Federal	**–**	–	42
State	**–**	–	12
Provision for income taxes	**$ 5**	$ 2	$ 58

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

	Year Ended December 31		
	2011	2010	2009
Federal tax at statutory rate	**$ 3,180**	$ 1,564	$ 998
State tax, net	**1**	–	8
Effect of non-taxable FLCA subsidiary	**(2,653)**	(1,362)	(830)
Patronage distributions	**(78)**	(232)	–
Change in valuation allowance	**(240)**	16	(76)
Effect of tax-free recapitalization distribution from bank merger	**(201)**	–	–
Prior year return to provision difference	**–**	17	(42)
Other	**(4)**	(1)	–
Provision for income taxes	**$ 5**	$ 2	$ 58

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2011	2010	2009
Deferred income tax assets:			
Allowance for loan losses	**$ 282**	$ 332	$ 321
Nonaccrual loan interest	**62**	79	51
Depreciation	**36**	35	35
Charitable contribution carryover	**2**	2	40
Net operating loss carryforwards	**40**	40	24
Gross deferred tax assets	**422**	488	471
Deferred tax asset valuation allowance	**(196)**	(464)	(448)
Deferred income tax liabilities:			
AgBank patronage allocation	**(200)**	–	–
Sale of fixed assets	**(3)**	(3)	(3)
Depletion	**(23)**	(21)	(20)
Gross deferred tax liability	**(226)**	(24)	(23)
Net deferred tax asset	**$ –**	$ –	$ –

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

The Association recorded a valuation allowance of $196 in 2011, $464 in 2010 and $448 in 2009. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly. At December 31, 2011, the Association had federal net operating loss carryforwards that expire from 2024 to 2026.

The Association has no uncertain tax positions as of December 31, 2011, 2010 or 2009. The tax years that remain open for federal and major state income tax jurisdictions are 2008 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

The employees of the Association may participate in the District's defined benefit pension plan (Pension Plan). The Pension Plan is noncontributory and covers a significant number of employees. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. As a participant in the District's defined benefit plan, the Association funded $374 in 2011, $267 in 2010 and $289 in 2009, through its note payable to AgBank. Pension Plan expenses included in salaries and employee benefits expense were $458 in 2011, $369 in 2010 and $211 in 2009. Additional financial information for the Pension Plan may be found in the AgBank District's Annual Report.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits) included in salaries and employee benefits were $6 in 2011, $3 in 2010 and $13 in 2009. Additional financial information for this plan may be found in the AgBank District's Annual Report.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution 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 this plan were $191 in 2011, $162 in 2010 and $166 in 2009.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

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

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

	2011	2010	2009
New loans	**$ 10,783**	$ 8,760	$ 15,761
Repayments	**$ 10,696**	$ 8,698	$ 16,317
Ending balance	**$ 6,776**	$ 6,574	$ 6,512

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2011 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $499 in 2011, $432 in 2010 and $365 in 2009 to AgVantis for technology services and $83 in 2011, $80 in 2010 and $72 in 2009 to AgBank for operational services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2011, $105,590 of commitments to extend credit and $1,755 of commercial letters of credit were outstanding.

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

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2011, $175 of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2012 to 2013. The maximum potential amount of future payments the Association is required to make under the guarantees is $175.

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

NOTE 14 – FAIR VALUE MEASUREMENTS

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

The Association has no assets or liabilities measured at fair value on a recurring basis for the periods presented.

	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value	Total Losses
Loans					
2011	**$ –**	**$ –**	**$ 32**	**$ 32**	**$ 39**
2010	$ –	$ –	$ 2,418	$ 2,418	$ 323
2009	$ –	$ –	$ 3,284	$ 3,284	$ 983

The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented.

Valuation Techniques

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

Loans

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

NOTE 15 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	December 31					
	2011		2010		2009	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	**$ 379,739**	**$ 383,937**	$ 390,535	$ 392,964	$ 340,786	$ 343,406
Cash	**$ 3,113**	**$ 3,113**	$ 3,556	$ 3,556	$ 2,844	$ 2,844
Financial liabilities:						
Note payable to AgBank	**$ 312,833**	**$ 317,536**	$ 332,504	$ 335,054	$ 285,135	$ 288,294
Advance conditional payments	**$ 8,365**	**$ 8,365**	$ 3,804	$ 3,804	$ 2,358	$ 2,358
Commitments to extend credit	**$ –**	**$ –**	$ –	$ –	$ –	$ NA
Standby letters of credit	**$ –**	**$ 27**	$ –	$ 15	$ –	$ NA

NA – Not available.

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

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

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

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

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

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

D. Advance conditional payments: The carrying value is a reasonable estimate of fair value as these funds are held in cash.

E. Commitments to Extend Credit and Standby Letters of Credit: The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2011, 2010 and 2009, follow.

	2011				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 2,681**	**$ 2,604**	**$ 2,571**	**$ 2,533**	**$10,389**
Provision for loan losses/(Loan loss reversal)	**43**	**(2)**	**(12)**	**38**	**67**
Noninterest expenses/(income), net	**129**	**1,544**	**1,569**	**(2,267)**	**975**
Net income	**$ 2,509**	**$ 1,062**	**$ 1,014**	**$ 4,762**	**$ 9,347**

	2010				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,658	$ 2,350	$ 2,480	$ 2,615	$ 10,103
Provision for loan losses/(Loan loss reversal)	343	76	(10)	(4)	405
Noninterest expenses, net	759	1,340	1,323	1,679	5,101
Net income	$ 1,556	$ 934	$ 1,167	$ 940	$ 4,597

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

NOTE 17 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 14, 2012 which is the date the financial statements were issued, and no material subsequent events were identified.

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Report of Independent Auditors

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

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows present fairly, in all material respects, the financial position of Farm Credit of Western Oklahoma, ACA and subsidiaries (the Association) at December 31, 2011, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 14, 2012

PricewaterhouseCoopers LLP, 41 South High Street, Suite 2500, Columbus, OH 43215
T: (614) 225-8700, F: (614) 224-1044, www.pwc.com/us

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

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

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

Description of Property

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

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

Legal Proceedings and Enforcement Actions

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2011, 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

Jimmie Purvine - Chairman. Mr. Purvine was elected to the board in May 2005. For the past five years, he has been involved in the following agricultural enterprises: wheat, milo, soybeans, corn, silage, beans, cow/calf and stockers. He is a former county committee member for Dewey Farm Service Agency and for the past four years has been a Board Member of the Dewey County Conservation District. His term expires in 2014.

Ronald W. White - Vice Chairman. Mr. White has been a member of the board since June 1988. For the past five years he has been involved in the following agricultural enterprises: corn, wheat, milo, cow/calf and stocker cattle. He is the owner of R & K Trailers LLC, which did lease livestock trailers to Brent White Transportation LLC, and is a director of Tri County Electric, a provider of electric power for the three panhandle counties. His term expires in 2012.

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

Ken Gore - Director. Mr. Gore has been a member of the board since November 1997. For the past five years he has been involved in the following agricultural enterprises: wheat, hay production, cow/calf, stockers and taking cattle in on a gain basis. His term expires in 2013.

James E. Hardy - Director. Mr. Hardy has been a member of the board since September 1986. For the past five years he has been involved in wheat and hay production, cow/calf, registered Angus cattle and stocker cattle. He retired in April, 2011 as the Activities Officer II at the William S. Key Correctional Facility, a minimum security prison. His term expires in 2014.

Kenton Javorsky - Director. Mr. Javorsky has been a member of the board since November, 2009. For the past five years he has been involved in the following agricultural enterprises: wheat, cotton, milo, sesame, cow-calf and custom cotton harvesting. He is President of Welderson Farms Inc, a family farming operation; part owner of A&K Skid Steer Service, a cedar tree removal business; on the Board of Directors of Midwest Farmer's Coop, a cotton gin, feed, fertilizer and fuel coop; and board chairman of the Western Oklahoma Christian School, a private elementary school in Clinton. His term will expire in 2012.

Jimmie Musick - Director. Mr. Musick has been a member of the board since September 1988. For the past five years he has been involved in the following agricultural enterprises: alfalfa hay, wheat, cotton, milo, corn and stocker cattle. He is owner of Musick Farms, a family farming operation and an order buyer for Cross Roads Livestock; owner of Musick and Varner Funeral Home, LLC, a funeral home business located in Cordell and Sentinel. He is on the board of National Wheat Growers Foundation, past president of Oklahoma Wheat Growers, Chairman of Washita County Health Board, Chairman of the Washita County Excise Board, and is currently a member of and in 2009 was Chairman of the U.S. AgBank, FCB Stockholders Advisory Council. His term expires in 2013.

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

Steve Semmel - Director. Mr. Semmel was elected to the board in May 2003. For the past five years he has been involved in the following agricultural enterprises: wheat and hay production, improved grasses, cow/calf, stocker and feedlot cattle. He is a partner with his son in S & S Farm & Ranch, a cattle and wheat business; owns an interest in the Woodward NAPA, an auto parts store; and OK Rental Equipment, a generator and light tower rental business. Mr. Semmel is treasurer for the Woodward Elks Rodeo. His term expires in 2012.

SENIOR OFFICERS

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

Mike McDonald - Chief Credit Officer. Mr. McDonald has served in the Farm Credit System since January 31, 1996. He has served as Chief Credit Officer since December 2003. He also has a part-time farming and ranching operation and is a director for Northwest Travelers, Inc., a summer baseball program.

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

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

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

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $400 per day, $150 for conference calls and were reimbursed mileage at the rate of $0.51 per mile for January 1, 2011 through June 30, 2011, and $0.55 per mile for July 1, 2011 through December 31, 2011, plus $20 per hour driving time. Some of the Compensation and Audit committees were held in conjunction with the regular board meetings or other meetings, so no additional compensation was paid to the directors for these meetings. However, two additional Audit committee meetings were held. Compensation for those meetings was $400 per day and $150 for conference call, plus $20 per hour driving time.

Additional information for each director is provided below:

Name	Number of Days Served at: Board Meetings	Number of Days Served at: Other Official Activities	Compensation for: Board Meetings and Other Official Duties	Compensation for: Audit Committee	Total Compensation Paid During 2011
Jimmie Purvine	9.0	29.0	$ 15,100	$ 1,760	$ 16,860
Ronald W. White	9.0	18.5	11,940	480	12,420
Bobbie Apple	9.0	20.0	13,868	–	13,868
Ken Gore	9.0	12.0	9,420	–	9,420
James E. Hardy	8.0	17.0	11,040	–	11,040
Kenton Javorsky	8.0	9.0	7,740	–	7,740
Jimmie Musick	9.0	15.0	10,940	–	10,940
LaVern Phillips	8.0	12.0	6,960	1,600	8,560
Steve Semmel	8.0	19.0	10,960	800	11,760
Total Compensation			$ 97,968	$ 4,640	$ 102,608

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 $83,481 in 2011, $83,991 in 2010 and $71,084 in 2009. There was no non-cash compensation paid to directors as a group during 2011.

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

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

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

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

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

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 U.S. AGBANK, FCB (AGBANK)

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

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

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

Effective January 1, 2012, as discussed in Note 1, AgBank merged with CoBank, ACB. As such, the Association will be materially affected by CoBank's financial condition and results of operations. Notes 4, 6, and 7 continue to be applicable for the Association with regard to CoBank.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 15, 2012, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

COBANK AND AGBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of AgBank and CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with AgBank District's and CoBank's 2011 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.