

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



**Quarterly Report  
September 30, 2021**

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

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

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA (the Association) for the nine months ended September 30, 2021, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2020 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

On January 1, 2021, AgPreference, ACA was merged into Farm Credit of Western Oklahoma, ACA. The merged Association is conducting business under the name of Farm Credit of Western Oklahoma, ACA (Western Oklahoma) and is headquartered in Woodward, Oklahoma. John Grunewald is the President and Chief Executive Officer of Western Oklahoma. The merged Association encompasses the territories previously served by the separate Associations.

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

Loan demand has been strong and commodity prices have strengthened during 2021. Much of our lending territory is experiencing some level of drought at this time with varying levels of impact to the current growing crops. USDA rates the majority of soil moisture conditions across the state of Oklahoma as short at this time emphasizing the need for moisture across the state, and according to USDA, growing crop conditions across the state of Oklahoma are predominantly within the fair to good range at this time.

With the strengthening of commodity prices, opportunities for our customers to forward price grain/cattle at strong levels of profitability has been present throughout 2021, but input costs are rising and continued disruptions in the supply chain are impacting operations. This stress and uncertainty is leading to higher input costs across the agricultural industry. The financial strength that part time farmers have relied upon from off farm income diversification is currently under pressure as well. At this time, interest rates remain at historically low levels and have greatly reduced the cost of borrowed capital.

The COVID-19 pandemic has affected the local economy, however, conditions continue to improve and the agricultural economy has strengthened substantially. The recent financial stress and worldwide economic outlook continue to be areas of concern. The federal government is providing economic stimulus to the United States economy and the medical community is working to vaccinate people and protect them from the COVID-19 virus. These are uncertain economic times not only in America but also throughout the world, and agriculture has not been immune to the stress or the uncertainty. Although average real estate values in Oklahoma are showing signs of improvement, given the current environment, it will be important to continue to evaluate the sustainability of this market strength over time. USDA National Agricultural Statistics indicate that Oklahoma farm real estate values increased by 6.88% in 2021, however, the continuation of Oklahoma real estate appreciation remains in question given the other factors previously mentioned. Future real estate value studies will indicate to what level the current uncertainty in the agricultural economy is influencing land values across the region.

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

The United States continues the economic recovery of the COVID-19 pandemic, with a surge in economic activity due to the combination of federal stimulus spending, increasing vaccination rates in households across the country, improving employment levels and the warm weather seasons. The economic recovery fueled by the Federal stimulus could translate into a significant increase in consumer spending and demand for goods and services that have been constrained during the pandemic. This economic recovery has been hampered by demand for goods and services running ahead of the recovery in supply as the labor-force participation is behind and the supply chains experience disruptions related to transportation and production of critical components. As growing demand has encountered supply constraints, inflation measures have risen sharply.

The U.S. government has continued to institute various programs in support of the COVID-19 recovery. In March 2021, Congress passed the \$1.9 trillion American Rescue Plan Act designed to provide near-term help to those hurt

by the pandemic. In December 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for Paycheck Protection Program (PPP) loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. The Association obtained approval to participate as a lender in the PPP and continued to provide funds to eligible borrowers during the first quarter of 2021. In March 2021, the current presidential administration also proposed the \$2.3 trillion American Jobs Plan intended to create jobs and rebuild the country's infrastructure.

## **LOAN PORTFOLIO**

Loans outstanding at September 30, 2021, totaled \$1.2 billion, an increase of \$302.9 million, or 32.27%, from loans of \$938.7 million at December 31, 2020. The increase was primarily due to the merger with AgPreference, ACA, effective, January 1, 2021.

## **RESULTS OF OPERATIONS**

Net income for the nine months ended September 30, 2021, was \$16.7 million, an increase of \$8.2 million, or 96.36%, from the same period ended one year ago. The increase was primarily due to increased net interest income due to increased loan volume that was a result of the merger, an increase in the credit loss reversal and an increase in patronage distributions from our funding bank, CoBank. This increase was partially offset by increased noninterest expense year-over-year.

For the nine months ended September 30, 2021, net interest income was \$26.0 million, an increase of \$8.5 million, or 48.53%, compared with the nine months ended September 30, 2020. Net interest income increased primarily due to the impact the merger had on loan volume as compared to the same period one year ago in addition to an increase in interest rate spread.

The credit loss reversal for the nine months ended September 30, 2021, was \$2.7 million, a decrease of \$2.9 million from the provision for credit losses for the same period ended one year ago. The credit loss reversal was the result of a recovery received on a previously charged off loan.

Noninterest income increased \$1.4 million during the first nine months of 2021 compared with the first nine months in 2020. Patronage distribution from Farm Credit institutions increased in the first nine months ended September 30, 2021, compared with the first nine months in 2020, primarily due to an increase in CoBank's target for patronage from 36 basis points in 2020 to 45 basis points in 2021 related to our direct note.

Mineral income of \$484 thousand was recognized during the first nine months of 2021. Of this amount, \$481 thousand was received from CoBank. The increase for the nine months ended September 30, 2021, compared with first nine months of 2020 is primarily the result of the merger in addition to post-pandemic demand recovery and an increase in crude oil and natural gas prices. Also included in noninterest income in 2020 was a refund of \$188 thousand from Farm Credit System Insurance Corporation (FCSIC). No refund was received in 2021. The refunds are our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts. Refer to the 2020 Annual Report to Shareholders for additional information.

During the first nine months of 2021, noninterest expense increased \$4.6 million to \$16.2 million, primarily due to the impact of the merger. Also contributing to the increase was an increase in Farm Credit Insurance Fund premiums due to premium rates doubling and further affected by loan growth resulting from the merger. We recorded conversion fee expense of \$126 thousand during the first nine months of 2021, primarily due to prepayment fees charged by CoBank related to loan conversions associated with the decrease in rates.

## **CAPITAL RESOURCES**

Our shareholders' equity at September 30, 2021, was \$242.8 million, an increase from \$177.4 million at December 31, 2020. This increase is due to equity issued in connection with the merger, net income, the amortization of pension costs included in the net periodic benefit cost and net stock additions.

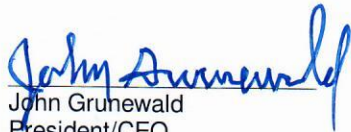
## **OTHER MATTERS**

On October 28, 2021, the boards of directors of Farm Credit of Western Oklahoma, ACA and Farm Credit of Enid, ACA approved a letter of intent to pursue a merger. The Associations will be completing due diligence over the next few months in order to develop definitive terms of the merger. The planned merger is subject to the approval of the Farm Credit Administration, CoBank and stockholder approval of Farm Credit of Western Oklahoma, ACA and Farm Credit of Enid, ACA.

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

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, despite the announcements from UKFCA, we are unable to predict when LIBOR will cease to be available or if Secured Overnight Financing Rate (SOFR) or any other alternative reference rate will become the benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers. Management has documented and are working through a LIBOR transition plan with our funding bank and service provider to address the phase out of LIBOR rates in the future, including any updates to processes and loan servicing technology.

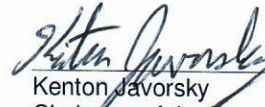
The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.



John Grunewald  
President/CEO  
November 8, 2021



Jamey B. Mitchell  
CFO  
November 8, 2021



Kenton Javorsky  
Chairman of the Board  
November 8, 2021

**Consolidated Statement of Condition**

(Dollars in Thousands)

	September 30 2021	December 31 2020
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 1,241,556	\$ 938,660
Less allowance for loan losses	1,947	1,827
Net loans	1,239,609	936,833
Cash	1,566	4,335
Accrued interest receivable	21,184	14,760
Investment in CoBank, ACB	39,139	30,828
Premises and equipment, net	6,869	4,991
Prepaid benefit expense	6,426	4,342
Other assets	6,371	5,510
<b>Total assets</b>	<b>\$ 1,321,164</b>	<b>\$ 1,001,599</b>
<b>LIABILITIES</b>		
Note payable to CoBank, ACB	\$ 1,057,978	\$ 804,672
Advance conditional payments	12,824	9,723
Accrued interest payable	1,376	1,138
Patronage distributions payable	-	3,250
Accrued benefits liability	698	528
Reserve for unfunded commitments	588	518
Other liabilities	4,872	4,416
<b>Total liabilities</b>	<b>1,078,336</b>	<b>824,245</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	2,433	2,058
Additional paid-in capital	81,946	33,619
Unallocated retained earnings	158,716	141,994
Accumulated other comprehensive income/(loss)	(267)	(317)
<b>Total shareholders' equity</b>	<b>242,828</b>	<b>177,354</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,321,164</b>	<b>\$ 1,001,599</b>

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

**Consolidated Statement of Comprehensive Income**

(Dollars in Thousands)

UNAUDITED	For the three months ended September 30		For the nine months ended September 30	
	2021	2020	2021	2020
<b>INTEREST INCOME</b>				
Loans	\$ 12,605	\$ 9,573	\$ 37,498	\$ 30,279
<b>Total interest income</b>	<b>12,605</b>	<b>9,573</b>	<b>37,498</b>	<b>30,279</b>
<b>INTEREST EXPENSE</b>				
Note payable to CoBank, ACB	3,949	3,738	11,453	12,677
Other	10	18	31	88
<b>Total interest expense</b>	<b>3,959</b>	<b>3,756</b>	<b>11,484</b>	<b>12,765</b>
Net interest income	8,646	5,817	26,014	17,514
Provision for credit losses/(Credit loss reversal)	83	3	(2,738)	138
Net interest income after provision for credit losses/credit loss reversal	8,563	5,814	28,752	17,376
<b>NONINTEREST INCOME</b>				
Financially related services income	2	4	5	7
Loan fees	31	32	58	107
Patronage distribution from Farm Credit institutions	1,168	705	3,438	2,097
Farm Credit Insurance Fund distribution	-	-	-	188
Mineral income	217	79	484	286
Other noninterest income	74	29	225	138
<b>Total noninterest income</b>	<b>1,492</b>	<b>849</b>	<b>4,210</b>	<b>2,823</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	2,776	1,960	8,194	6,291
Occupancy and equipment	222	154	665	461
Purchased services from AgVantis, Inc.	777	570	2,331	1,710
Farm Credit Insurance Fund premium	360	189	1,064	463
Merger related costs	-	361	167	371
Supervisory and examination costs	89	63	308	213
Prepayment expense	(1)	51	126	51
Other noninterest expense	1,035	603	3,385	2,123
<b>Total noninterest expense</b>	<b>5,258</b>	<b>3,951</b>	<b>16,240</b>	<b>11,683</b>
<b>Net income</b>	<b>4,797</b>	<b>2,712</b>	<b>16,722</b>	<b>8,516</b>
<b>COMPREHENSIVE INCOME</b>				
Amortization of retirement costs	17	3	50	11
<b>Total comprehensive income</b>	<b>\$ 4,814</b>	<b>\$ 2,715</b>	<b>\$ 16,772</b>	<b>\$ 8,527</b>

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

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

(Dollars in Thousands)

UNAUDITED	Protected Borrower Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balance at December 31, 2019</b>	\$ -	\$ 2,026	\$ 33,619	\$ 134,095	\$ (81)	\$ 169,659
Comprehensive income				8,516	11	8,527
Stock issued		145				145
Stock retired		(121)				(121)
<b>Balance at September 30, 2020</b>	\$ -	\$ 2,050	\$ 33,619	\$ 142,611	\$ (70)	\$ 178,210
<b>Balance at December 31, 2020</b>	\$ -	\$ 2,058	\$ 33,619	\$ 141,994	\$ (317)	\$ 177,354
Comprehensive income				16,722	50	16,772
Stock issued		234				234
Stock retired	(10)	(202)				(212)
Equity issued in connection with merger	10	343	48,327			48,680
<b>Balance at September 30, 2021</b>	\$ -	\$ 2,433	\$ 81,946	\$ 158,716	\$ (267)	\$ 242,828

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



## NOTES TO FINANCIAL STATEMENTS (Unaudited)

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of September 30, 2021 and the balances for Western Oklahoma prior to January 1, 2021. The Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Shareholders' Equity reflect the results of the merged Association after January 1, 2021 and Western Oklahoma activity prior to January 1, 2021. Information presented in the Notes to the Consolidated Financial Statement for 2021 reflects balances of the merged Association.

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

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

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC 805, Business Combinations (ASC 805)). Pursuant to these rules, Western Oklahoma acquired the assets and assumed the liabilities of AgPreference at their acquisition-date fair value. The fair value of the net identifiable assets acquired (\$261.7 million) was substantially equal to the fair value of the equity interest exchanged

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

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

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

Fair value adjustments to AgPreference's assets and liabilities included a \$2.8 million decrease to loans and a \$3.6 million increase to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans, which totaled \$248.1 million at January 1, 2021.

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

In March 2020, the Financial Accounting Standards Board (FASB) issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association applied the optional expedients as it relates to loans in the first quarter of 2021. The impact of the adoption was not material to the Association's financial condition or its results of operations. We have applied the optional accounting expedients to our loans by incorporating fallback language into these agreements.

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

## NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

<i>(dollars in thousands)</i>	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 848,952	\$ 613,247
Production and intermediate-term	310,712	296,303
Agribusiness	61,026	25,538
Rural infrastructure	17,325	2,382
Rural residential real estate	1,548	1,190
Agricultural export finance	1,993	-
Total loans	\$ 1,241,556	\$ 938,660

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2021:

<i>(dollars in thousands)</i>	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$ 43,064	\$ 18,994	\$ 97,285	\$ -	\$ 140,349	\$ 18,994
Production and intermediate-term	29,481	6,541	-	-	29,481	6,541
Agribusiness	20,592	6,304	-	-	20,592	6,304
Rural infrastructure	16,745	-	-	-	16,745	-
Agricultural export finance	1,993	-	-	-	1,993	-
Total	\$ 111,875	\$ 31,839	\$ 97,285	\$ -	\$ 209,160	\$ 31,839

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

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

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

	September 30, 2021	December 31, 2020
Real estate mortgage		
Acceptable	95.92%	96.12%
OAEM	2.51%	2.20%
Substandard	1.57%	1.68%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	95.21%	91.71%
OAEM	3.66%	6.20%
Substandard	1.13%	2.09%
Total	100.00%	100.00%
Agribusiness		
Acceptable	98.42%	93.20%
OAEM	1.58%	6.79%
Substandard	-	0.01%
Total	100.00%	100.00%
Rural infrastructure		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Rural residential real estate		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Agricultural export finance		
Acceptable	100.00%	-
Total	100.00%	-
Total Loans		
Acceptable	95.93%	94.66%
OAEM	2.71%	3.58%
Substandard	1.36%	1.76%
Total	100.00%	100.00%

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

<i>(dollars in thousands)</i>	September 30, 2021	December 31, 2020
Nonaccrual loans		
Real estate mortgage	\$ 5,290	\$ -
Production and intermediate-term	243	2
Total nonaccrual loans	\$ 5,533	\$ 2
Accruing restructured loans		
Real estate mortgage	\$ 155	\$ 92
Total accruing restructured loans	\$ 155	\$ 92
Accruing loans 90 days past due		
Real estate mortgage	\$ 316	\$ 626
Total accruing loans 90 days past due	\$ 316	\$ 626
Total impaired loans	\$ 6,004	\$ 720

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

Additional impaired loan information is as follows:

<i>(dollars in thousands)</i>	September 30, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for loan losses:						
Real estate mortgage	\$ 5,761	\$ 6,007		\$ 718	\$ 682	
Production and intermediate-term	243	1,899		2	1,364	
Total impaired loans:	\$ 6,004	\$ 7,906		\$ 720	\$ 2,046	

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

<i>(dollars in thousands)</i>	For the Three Months Ended September 30, 2021		For the Three Months Ended September 30, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:				
Production and intermediate-term	\$ 369	\$ -	\$ 49	\$ -
Total	\$ 369	\$ -	\$ 49	\$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	\$ 5,708	\$ 3	\$ 1,091	\$ 18
Production and intermediate-term	288	-	3	-
Total	\$ 5,996	\$ 3	\$ 1,094	\$ 18
Total impaired loans:				
Real estate mortgage	\$ 5,708	\$ 3	\$ 1,091	\$ 18
Production and intermediate-term	657	-	52	-
Total	\$ 6,365	\$ 3	\$ 1,143	\$ 18

	For the Nine Months Ended September 30, 2021		For the Nine Months Ended September 30, 2020	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
<i>(dollars in thousands)</i>				
Impaired loans with a related allowance for loan losses:				
Production and intermediate-term	\$ 134	\$ -	\$ 51	\$ -
Total	\$ 134	\$ -	\$ 51	\$ -
Impaired loans with no related allowance for loan losses:				
Real estate mortgage	\$ 3,407	\$ 35	\$ 1,052	\$ 50
Production and intermediate-term	373	4	3	-
Total	\$ 3,780	\$ 39	\$ 1,055	\$ 50
Total impaired loans:				
Real estate mortgage	\$ 3,407	\$ 35	\$ 1,052	\$ 50
Production and intermediate-term	507	4	54	-
Total	\$ 3,914	\$ 39	\$ 1,106	\$ 50

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

	September 30, 2021					
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
<i>(dollars in thousands)</i>						
Real estate mortgage	\$ 6,293	\$ 316	\$ 6,609	\$ 858,139	\$ 864,748	\$ 316
Production and intermediate-term	854	146	1,000	315,417	316,417	-
Agribusiness	-	-	-	61,274	61,274	-
Rural infrastructure	-	-	-	16,752	16,752	-
Rural residential real estate	-	-	-	1,553	1,553	-
Agricultural export finance	-	-	-	1,996	1,996	-
Total	\$ 7,147	\$ 462	\$ 7,609	\$ 1,255,131	\$ 1,262,740	\$ 316

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

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

<i>(dollars in thousands)</i>	Balance at June 30, 2021	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2021
Real estate mortgage	\$ 537	\$ -	\$ -	\$ 32	\$ 569
Production and intermediate-term	1,272	-	5	(65)	1,212
Agribusiness	32	-	-	104	136
Rural infrastructure	15	-	-	10	25
Rural residential real estate	1	-	-	3	4
Agricultural export finance	1	-	-	-	1
<b>Total</b>	<b>\$ 1,858</b>	<b>\$ -</b>	<b>\$ 5</b>	<b>\$ 84</b>	<b>\$ 1,947</b>

<i>(dollars in thousands)</i>	Balance at December 31, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2021
Real estate mortgage	\$ 423	\$ -	\$ -	\$ 146	\$ 569
Production and intermediate-term	1,359	-	2,928	(3,075)	1,212
Agribusiness	43	-	-	93	136
Rural infrastructure	1	-	-	24	25
Rural residential real estate	1	-	-	3	4
Agricultural export finance	-	-	-	1	1
<b>Total</b>	<b>\$ 1,827</b>	<b>\$ -</b>	<b>\$ 2,928</b>	<b>\$ (2,808)</b>	<b>\$ 1,947</b>

<i>(dollars in thousands)</i>	Balance at June 30, 2020	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2020
Real estate mortgage	\$ 383	\$ -	\$ -	\$ (11)	\$ 372
Production and intermediate-term	1,528	27	1	(19)	1,483
Agribusiness	16	-	-	21	37
<b>Total</b>	<b>\$ 1,927</b>	<b>\$ 27</b>	<b>\$ 1</b>	<b>\$ (9)</b>	<b>\$ 1,892</b>

<i>(dollars in thousands)</i>	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at September 30, 2020
Real estate mortgage	\$ 357	\$ -	\$ -	\$ 15	\$ 372
Production and intermediate-term	1,471	43	4	51	1,483
Agribusiness	30	-	-	7	37
Rural infrastructure	4	-	-	(4)	-
<b>Total</b>	<b>\$ 1,862</b>	<b>\$ 43</b>	<b>\$ 4</b>	<b>\$ 69</b>	<b>\$ 1,892</b>

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

<i>(dollars in thousands)</i>	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Balance at beginning of period	\$ 589	\$ 502	\$ 518	\$ 445
(Reversal of)/Provision for reserve for unfunded commitment	(1)	12	70	69
Total	\$ 588	\$ 514	\$ 588	\$ 514

Additional information on the allowance for loan losses follows:

<i>(dollars in thousands)</i>	Allowance for Loan Losses Ending Balance at September 30, 2021		Recorded Investments in Loans Outstanding Ending Balance at September 30, 2021	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ -	\$ 569	\$ 5,761	\$ 858,987
Production and intermediate-term	-	1,212	243	316,174
Agribusiness	-	136	-	61,274
Rural infrastructure	-	25	-	16,752
Rural residential real estate	-	4	-	1,553
Agricultural export finance	-	1	-	1,996
Total	\$ -	\$ 1,947	\$ 6,004	\$ 1,256,736

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no TDRs during the nine months ended September 30, 2021 or September 30, 2020. The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the first nine months of 2021 and 2020. There were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructuring at September 30, 2021 and December 31, 2020.



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

<i>(dollars in thousands)</i>	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
Real estate mortgage	\$ 155	\$ 94	\$ -	\$ 2
Total	\$ 155	\$ 94	\$ -	\$ 2

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

### NOTE 3 - CAPITAL

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

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

	As of September 30, 2021	As of December 31, 2020	Regulatory Minimums	Capital Conservation Buffer	Total
Risk Adjusted:					
Common equity tier 1 ratio	17.00%	16.58%	4.5%	2.5%	7.0%
Tier 1 capital ratio	17.00%	16.58%	6.0%	2.5%	8.5%
Total capital ratio	17.21%	16.85%	8.0%	2.5%	10.5%
Permanent capital ratio	17.03%	16.62%	7.0%	-	7.0%
Non-risk-adjusted:					
Tier 1 leverage ratio	15.73%	15.63%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	17.26%	17.16%	1.5%	-	1.5%

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

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

<i>(dollars in thousands)</i>	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2021	2020	2021	2020
Pension and other benefit plans:				
Beginning balance	\$ (284)	\$ (73)	\$ (317)	\$ (81)
Amounts reclassified from accumulated other comprehensive loss	17	3	50	11
Net current period other comprehensive income	17	3	50	11
Ending balance	\$ (267)	\$ (70)	\$ (267)	\$ (70)

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

<i>(dollars in thousands)</i>	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Three Months Ended September 30		
	2021	2020	
Pension and other benefit plans:			Salaries and employee benefits
Net actuarial loss	\$ 17	\$ 3	
<b>Total reclassifications</b>	<b>\$ 17</b>	<b>\$ 3</b>	

<i>(dollars in thousands)</i>	Amount Reclassified from Accumulated Other Comprehensive Loss		Location of Gain/Loss Recognized in Statement of Income
	For the Nine Months Ended September 30		
	2021	2020	
Pension and other benefit plans:			Salaries and employee benefits
Net actuarial loss	\$ 50	\$ 11	
<b>Total reclassifications</b>	<b>\$ 50</b>	<b>\$ 11</b>	

#### NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

<i>(dollars in thousands)</i>	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
<b>September 30, 2021</b>	\$ 1,036	\$ -	\$ -	\$ 1,036
December 31, 2020	\$ 766	\$ -	\$ -	\$ 766

The Association had no liabilities measured at fair value on a recurring basis at September 30, 2021 or December 31, 2020.

The Association had no assets or liabilities measured at fair value on a non-recurring basis at September 30, 2021 or December 31, 2020.

#### Valuation Techniques

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

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

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

##### *Loans Evaluated for Impairment*

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases, it also requires significant input

based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

#### **NOTE 5 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through November 8, 2021, which is the date the financial statements were issued.

On October 28, 2021, the boards of directors of Farm Credit of Western Oklahoma, ACA and Farm Credit of Enid, ACA approved a letter of intent to pursue a merger. The Associations will be completing due diligence over the next few months in order to develop definitive terms of the merger. The planned merger is subject to the approval of the Farm Credit Administration, CoBank and stockholder approval of Farm Credit of Western Oklahoma, ACA and Farm Credit of Enid, ACA.