

# Farm Credit of Western Oklahoma, ACA

*Quarterly Report to Stockholders*

*June 30, 2014*



The shareholders' investment in the Farm Credit of Western Oklahoma, ACA (Association) is materially affected by the financial condition and results of operations of CoBank, ACB, (CoBank). The 2013 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, [www.cobank.com](http://www.cobank.com), or may be obtained at no charge by contacting the Association at 3302 Williams Avenue, Woodward, Oklahoma 73801 or calling 580-256-3465 or toll-free 1-800-299-3465.

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

(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Western Oklahoma, ACA for the six months ended June 30, 2014, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2013 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

Crop conditions have improved with recent moisture. The local economy remains strong due to cattle prices and outside influence from the energy industry.

**LOAN PORTFOLIO**

Loans outstanding at June 30, 2014 totaled \$457,970, a decrease of \$9,904, or 2.12%, from loans of \$467,874 at December 31, 2013. The decrease was primarily due to less participation purchased, fewer cattle purchases and receipt of livestock disaster payments.

**RESULTS OF OPERATIONS**

Net income for the six months ended June 30, 2014 was \$3,173, an increase of \$479, or 17.78%, from the same period ended one year ago. This is partially due to an increase in loan volume from the same period one year ago, a decrease in cost of funds, a reversal in the allowance account and an increase in noninterest income, offset by an increase in noninterest expense.

Net interest income for the six months ended June 30, 2014 was \$6,322, an increase of \$197, or 3.22%, compared with June 30, 2013. Net interest income increased as a result of increased loan volume and a lower cost of funds from CoBank.

The loan loss reversal for the six months ended June 30, 2014 was \$81 compared with a provision for loan losses of \$253 for the same period ended one year ago. The change is a result of improved risk profile of the portfolio.

Noninterest income increased \$80 during the first six months of 2014 compared with the first six months in 2013 primarily due to increased mineral income.

Mineral income of \$333 was recognized during the first six months of 2014. Of this amount, quarterly payments totaling \$330 were received from CoBank.

During the first six months of 2014, noninterest expense increased \$132 to \$4,502, primarily due to expenses recognized in connection with the merger and an increase in the Farm Credit Insurance Fund premium.

**CAPITAL RESOURCES**

Our shareholders' equity at June 30, 2014 was \$92,354, an increase from \$89,178 at December 31, 2013. This increase is due to net income and a slight increase in capital stock.

**OTHER MATTERS**

On January 23, 2014, the Association's Board of Directors signed a letter of intent to pursue a merger with Farm Credit of Central Oklahoma, ACA. The Letter of Intent states an anticipated merger date of January 1, 2014. Subsequent to signing the letter, both Associations agreed to move the date forward to October 1, 2014.

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.

  
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Jimmie Purvine, Chairman of the Board  
August 4, 2014

  
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John Grunewald, President/CEO  
August 4, 2014

  
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Jamie Shirkey, Sr. V.P. - CFO  
August 4, 2014

## Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2014 UNAUDITED	December 31 2013 AUDITED
<b>ASSETS</b>		
Loans	\$ 457,970	\$ 467,874
Less allowance for loan losses	2,166	2,247
Net loans	455,804	465,627
Cash	2,500	4,399
Accrued interest receivable	8,841	6,109
Investment in CoBank	15,278	15,278
Premises and equipment, net	1,605	1,639
Prepaid benefit expense	290	439
Other assets	1,434	2,292
<b>Total assets</b>	<b>\$ 485,752</b>	<b>\$ 495,783</b>
<b>LIABILITIES</b>		
Note payable to CoBank	\$ 379,406	\$ 394,198
Advance conditional payments	10,412	7,211
Accrued interest payable	2,827	2,807
Patronage distributions payable	-	1,500
Accrued benefits liability	94	100
Other liabilities	659	789
<b>Total liabilities</b>	<b>393,398</b>	<b>406,605</b>
<b>Commitments and Contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock	1,343	1,340
Unallocated retained earnings	91,011	87,838
<b>Total shareholders' equity</b>	<b>92,354</b>	<b>89,178</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 485,752</b>	<b>\$ 495,783</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 June 30		For the six months ended June 30	
	2014	2013	2014	2013
<b>INTEREST INCOME</b>				
Loans	\$ 4,965	\$ 4,916	\$ 9,911	\$ 9,803
<b>Total interest income</b>	<b>4,965</b>	<b>4,916</b>	<b>9,911</b>	<b>9,803</b>
<b>INTEREST EXPENSE</b>				
Note payable to CoBank	1,781	1,821	3,548	3,640
Other	23	20	41	38
<b>Total interest expense</b>	<b>1,804</b>	<b>1,841</b>	<b>3,589</b>	<b>3,678</b>
Net interest income	3,161	3,075	6,322	6,125
(Loan loss reversal)/Provision for loan losses	(9)	177	(81)	253
Net interest income after loan loss reversal/provision for loan losses	3,170	2,898	6,403	5,872
<b>NONINTEREST INCOME</b>				
Financially related services income	1	5	5	11
Loan fees	4	13	6	13
Patronage refund from Farm Credit Institutions	426	452	861	853
Mineral income	224	147	333	258
Other noninterest income	28	54	67	57
<b>Total noninterest income</b>	<b>683</b>	<b>671</b>	<b>1,272</b>	<b>1,192</b>
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	1,036	1,017	2,524	2,608
Occupancy and equipment	83	87	168	166
Purchased services from AgVantis, Inc.	182	175	359	351
Farm Credit Insurance Fund premium	103	85	208	169
Merger-implementation costs	71	-	77	-
Supervisory and examination costs	40	38	80	75
Other noninterest expense	509	537	1,086	1,001
<b>Total noninterest expense</b>	<b>2,024</b>	<b>1,939</b>	<b>4,502</b>	<b>4,370</b>
<b>Net income/Comprehensive income</b>	<b>\$ 1,829</b>	<b>\$ 1,630</b>	<b>\$ 3,173</b>	<b>\$ 2,694</b>

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

## Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
<b>Balance at December 31, 2012</b>	\$ 1,377	\$ 82,741	\$ 84,118
Comprehensive income		2,694	2,694
Stock issued	53		53
Stock retired	(67)		(67)
<b>Balance at June 30, 2013</b>	<b>\$ 1,363</b>	<b>\$ 85,435</b>	<b>\$ 86,798</b>
<b>Balance at December 31, 2013</b>	\$ 1,340	\$ 87,838	\$ 89,178
Comprehensive income		3,173	3,173
Stock issued	66		66
Stock retired	(63)		(63)
<b>Balance at June 30, 2014</b>	<b>\$ 1,343</b>	<b>\$ 91,011</b>	<b>\$ 92,354</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
(Dollars in Thousands, Except as Noted)  
(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, 2013, are contained in the 2013 Annual Report to Shareholders. These unaudited second quarter 2014 financial statements should be read in conjunction with the 2013 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, 2013 as contained in the 2013 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, 2014. Descriptions of the significant accounting policies are included in the 2013 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.

**NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES**

A summary of loans follows:

	June 30, 2014	December 31, 2013
Real estate mortgage	\$ 307,203	\$ 305,289
Production and intermediate-term	147,625	152,740
Agribusiness:		
Loans to cooperatives	1,004	4,622
Processing and marketing	333	2,813
Farm-related business	647	646
Rural residential real estate	1,158	1,764
<b>Total loans</b>	<b>\$ 457,970</b>	<b>\$ 467,874</b>

The Association purchases or 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 during the quarter ended June 30, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	\$	\$	\$ 254	\$ --	\$	\$
Production and intermediate-term			--	--		
Agribusiness			--	--		
<b>Total</b>	<b>\$ 54,275</b>	<b>\$ 17,688</b>	<b>\$ 254</b>	<b>\$ --</b>	<b>\$ 54,529</b>	<b>\$ 17,688</b>

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:

	June 30, 2014	December 31, 2013
Real estate mortgage		
Acceptable	99.27%	99.30%
OAEM	0.41%	0.48%
Substandard	0.32%	0.22%
Total	100.00%	100.00%
Production and intermediate-term		
Acceptable	98.03%	96.64%
OAEM	1.34%	1.80%
Substandard	0.63%	1.56%
Total	100.00%	100.00%
Agribusiness		
Acceptable	98.26%	98.89%
OAEM	1.74%	1.11%
Total	100.00%	100.00%
Rural residential real estate		
Acceptable	100.00%	100.00%
Total	100.00%	100.00%
Total Loans		
Acceptable	98.87%	98.42%
OAEM	0.71%	0.92%
Substandard	0.42%	0.66%
Total	100.00%	100.00%

High risk assets consist of impaired loans and other property owned. The Association had no high risk assets, nonaccrual, accruing restructured loans or accruing loans 90 days past due or other property owned as of June 30, 2014 or December 31, 2013.

Additional impaired loan information is as follows:

	June 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Total impaired loans:						
Production and intermediate-term	\$ ---	\$ 1,480	\$ ---	\$ ---	\$ 1,479	\$ ---
Total	\$ ---	\$ 1,480	\$ ---	\$ ---	\$ 1,479	\$ ---

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 acquisition costs and may also reflect a previous direct write-down of the investment.

	For the Three Months Ended June 30, 2014		For the Three Months Ended June 30, 2013	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Total impaired loans:				
Real estate mortgage	\$ ---	\$ ---	\$ 171	\$ ---
Production and intermediate-term	---	---	23	---
Total	\$ ---	\$ ---	\$ 194	\$ ---

	For the Six Months Ended June 30, 2014		For the Six Months Ended June 30, 2013	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Total impaired loans:				
Real estate mortgage	\$ ---	\$ ---	\$ 171	\$ ---
Production and intermediate-term	---	---	29	---
<b>Total</b>	<b>\$ ---</b>	<b>\$ ---</b>	<b>\$ 200</b>	<b>\$ ---</b>

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

	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 Accruing Loans 90 Days or More Past Due
<b>June 30, 2014</b>						
Real estate mortgage	\$ ---	\$ ---	\$ ---	\$ 313,229	\$ 313,229	\$ ---
Production and intermediate-term	430	---	430	149,986	150,416	---
Agribusiness	---	---	---	2,003	2,003	---
Rural residential real estate	---	---	---	1,163	1,163	---
<b>Total</b>	<b>\$ 430</b>	<b>\$ ---</b>	<b>\$ 430</b>	<b>\$ 466,381</b>	<b>\$ 466,811</b>	<b>\$ ---</b>

	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 Accruing Loans 90 Days or More Past Due
<b>December 31, 2013</b>						
Real estate mortgage	\$ 212	\$ ---	\$ 212	\$ 308,869	\$ 309,081	\$ ---
Production and intermediate-term	---	---	---	155,016	155,016	---
Agribusiness	---	---	---	8,104	8,104	---
Rural residential real estate	---	---	---	1,782	1,782	---
<b>Total</b>	<b>\$ 212</b>	<b>\$ ---</b>	<b>\$ 212</b>	<b>\$ 473,771</b>	<b>\$ 473,983</b>	<b>\$ ---</b>

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

	Balance at March 31, 2014	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2014
Real estate mortgage	\$ 150	\$ --	\$ --	\$ 4	\$ 154
Production and intermediate-term	1,939	--	2	6	1,947
Agribusiness	83	--	--	(19)	64
Rural residential real estate	1	--	--	--	1
<b>Total</b>	<b>\$ 2,173</b>	<b>\$ --</b>	<b>\$ 2</b>	<b>\$ (9)</b>	<b>\$ 2,166</b>

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2014
Real estate mortgage	\$ 167	\$ --	\$ --	\$ (13)	\$ 154
Production and intermediate-term	2,026	8	8	(79)	1,947
Agribusiness	52	--	--	12	64
Rural residential real estate	2	--	--	(1)	1
<b>Total</b>	<b>\$ 2,247</b>	<b>\$ 8</b>	<b>\$ 8</b>	<b>\$ (81)</b>	<b>\$ 2,166</b>

	Balance at March 31, 2013	Charge-offs	Recoveries	Provision for Loan Losses	Balance at June 30, 2013
Real estate mortgage	\$ 179	\$ --	\$ --	\$ 7	\$ 186
Production and intermediate-term	1,992	25	5	153	2,125
Agribusiness	65	--	--	16	81
Rural residential real estate	1	--	--	1	2
<b>Total</b>	<b>\$ 2,237</b>	<b>\$ 25</b>	<b>\$ 5</b>	<b>\$ 177</b>	<b>\$ 2,394</b>

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses	Balance at June 30, 2013
Real estate mortgage	\$ 182	\$ --	\$ --	\$ 4	\$ 186
Production and intermediate-term	1,908	44	23	238	2,125
Agribusiness	70	--	--	11	81
Rural residential real estate	2	--	--	--	2
<b>Total</b>	<b>\$ 2,162</b>	<b>\$ 44</b>	<b>\$ 23</b>	<b>\$ 253</b>	<b>\$ 2,394</b>

	Allowance for Credit Losses Ending Balance at June 30, 2014		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ --	\$ 154	\$ --	\$ 313,229
Production and intermediate-term	--	1,947	--	150,416
Agribusiness	--	64	--	2,003
Rural residential real estate	--	1	--	1,163
<b>Total</b>	<b>\$ --</b>	<b>\$ 2,166</b>	<b>\$ --</b>	<b>\$ 466,811</b>

	Allowance for Credit Losses Ending Balance at December 31, 2013		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2013	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	\$ --	\$ 167	\$ --	\$ 309,081
Production and intermediate-term	--	2,026	--	155,016
Agribusiness	--	52	--	8,104
Rural residential real estate	--	2	--	1,782
<b>Total</b>	<b>\$ --</b>	<b>\$ 2,247</b>	<b>\$ --</b>	<b>\$ 473,983</b>

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Association recorded no TDRs during the six months ended June 30, 2014 nor in the previous 12 months.

### NOTE 3 - 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 to the 2013 Annual Report to Shareholders for a more complete description.

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
<b>June 30, 2014</b>	\$ 34	\$ --	\$ --	\$ 34
December 31, 2013	\$ 17	\$ --	\$ --	\$ 17

During the first six months of 2014, the Association recorded no transfers in or out of Levels 1, 2, or 3.

The Association had no liabilities measured at fair value on a recurring basis at June 30, 2014 or December 31, 2013.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
<b>June 30, 2014</b>					
<b>Loans</b>	\$ --	\$ --	\$ --	\$ --	\$ 1
December 31, 2013					
Loans	\$ --	\$ --	\$ --	\$ --	\$ 18

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and takes into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

The Association had no liabilities measured at fair value on a non-recurring basis at June 30, 2014 or December 31, 2013.

### Valuation Techniques

As more fully discussed in Note 2 to the 2013 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.

#### Loans

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

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

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

**NOTE 4 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through August 4, 2014, which is the date the financial statements were issued, and no material subsequent events were identified.