

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**, 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.

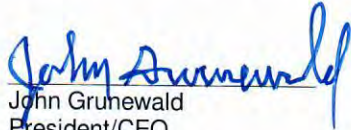
OTHER MATTERS

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.

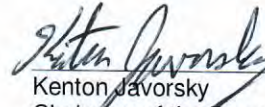
The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.



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 |
| ASSETS | | |
| 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 |
| Total assets | \$ 1,321,164 | \$ 1,001,599 |
| LIABILITIES | | |
| 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 |
| Total liabilities | 1,078,336 | 824,245 |
| Commitments and Contingencies | | |
| SHAREHOLDERS' EQUITY | | |
| 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) |
| Total shareholders' equity | 242,828 | 177,354 |
| Total liabilities and shareholders' equity | \$ 1,321,164 | \$ 1,001,599 |

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

Consolidated Statement of Comprehensive Income

| UNAUDITED | For the three months ended September 30 | | For the nine months ended September 30 | |
|--|--|-----------------|---|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| (Dollars in Thousands) | | | | |
| INTEREST INCOME | | | | |
| Loans | \$ 12,605 | \$ 9,573 | \$ 37,498 | \$ 30,279 |
| Total interest income | 12,605 | 9,573 | 37,498 | 30,279 |
| INTEREST EXPENSE | | | | |
| Note payable to CoBank, ACB | 3,949 | 3,738 | 11,453 | 12,677 |
| Other | 10 | 18 | 31 | 88 |
| Total interest expense | 3,959 | 3,756 | 11,484 | 12,765 |
| 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 |
| NONINTEREST INCOME | | | | |
| 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 |
| Total noninterest income | 1,492 | 849 | 4,210 | 2,823 |
| NONINTEREST EXPENSE | | | | |
| 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 |
| Total noninterest expense | 5,258 | 3,951 | 16,240 | 11,683 |
| Net income | 4,797 | 2,712 | 16,722 | 8,516 |
| COMPREHENSIVE INCOME | | | | |
| Amortization of retirement costs | 17 | 3 | 50 | 11 |
| Total comprehensive income | \$ 4,814 | \$ 2,715 | \$ 16,772 | \$ 8,527 |

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

| | Protected Borrower Stock | Capital Stock | Additional Paid-In Capital | Unallocated Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total Shareholders' Equity |
|---|--------------------------------|------------------|----------------------------------|-------------------------------------|--|----------------------------------|
| UNAUDITED | | | | | | |
| Balance at December 31, 2019 | \$ - | \$ 2,026 | \$ 33,619 | \$ 134,095 | \$ (81) | \$ 169,659 |
| Comprehensive income | | | | 8,516 | 11 | 8,527 |
| Stock issued | | 145 | | | | 145 |
| Stock retired | | (121) | | | | (121) |
| Balance at September 30, 2020 | \$ - | \$ 2,050 | \$ 33,619 | \$ 142,611 | \$ (70) | \$ 178,210 |
| Balance at December 31, 2020 | \$ - | \$ 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 |
| Balance at September 30, 2021 | \$ - | \$ 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.

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

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 |
| Total | \$ 1,858 | \$ - | \$ 5 | \$ 84 | \$ 1,947 |

| <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 |
| Total | \$ 1,827 | \$ - | \$ 2,928 | \$ (2,808) | \$ 1,947 |

| <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 |
| Total | \$ 1,927 | \$ 27 | \$ 1 | \$ (9) | \$ 1,892 |

| <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) | - |
| Total | \$ 1,862 | \$ 43 | \$ 4 | \$ 69 | \$ 1,892 |

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 | |
| Total reclassifications | \$ 17 | \$ 3 | |

| <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 | |
| Total reclassifications | \$ 50 | \$ 11 | |

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 | | | | |
| September 30, 2021 | \$ 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.