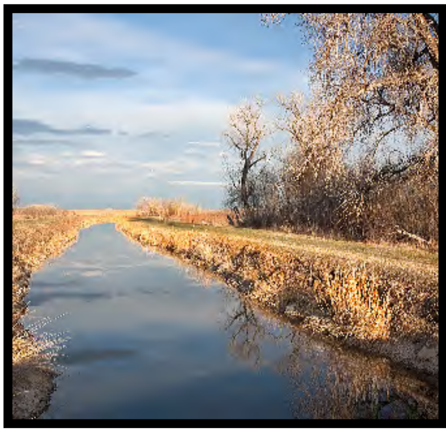
Premier Farm Credit

PREMIERACA.com

Annual Report 2019

Premier Farm Credit



PRESIDENT'S MESSAGE TO STOCKHOLDERS

Premier Farm Credit Mission Statement: *Premier Farm Credit supports agriculture and rural communities by providing reliable, consistent and competitively priced credit and related services to enhance the well-being of farmers, ranchers and ag businesses.*

Dear Members:

On behalf of the Board of Directors and staff, I am pleased to report that 2019 was another successful year for Premier Farm Credit. Your Association realized strong net earnings of $14.34 million as a result of growth in net interest income and continued prudent expense management. Loan volume grew to over $700 million and our capital position remains strong. Capital is actively managed to ensure that we maintain safe levels to support current operations and have an appropriate capital base to fund your future needs.

In addition to providing you with reliable and competitive loan products, as a member of Premier Farm Credit you continue to share in the success of your cooperative. The Board of Directors again demonstrated their commitment to a meaningful patronage program by declaring a **record cash patronage dividend of $5.5 million for 2019 business.** This $5.5 million represents approximately 38% of net earnings and is an increase of $1.0 million over the 2018 dividend. The $10.0 million patronage distribution over the past two years demonstrates our desire to help our members, especially as many of you continue to deal with challenging economic conditions.

Your Association also continues to be a strong community partner and advocate for agriculture. We fulfill our commitment to community by investing in numerous youth and educational outreach programs and projects that support agriculture, local communities and our rural economy. We also actively work to make sure the voices of producers in Northeast Colorado are heard by legislators and work to advance numerous legislative efforts that support agriculture.

We remain proud to be your lending cooperative and thank you for your continued business and your contributions to our success. Please accept our sincere appreciation for your continued support and commitment to the Association.

Sincerely,

Michael Grauberger
President and Chief Executive Officer

Michael Grauberger
President and CEO

We are pleased to present the 2019 Annual Report for Premier Farm Credit, ACA on the following pages. This report is a comprehensive review of our financial condition and represents the consolidated results of operations for Premier Farm Credit, PCA and Premier Farm Credit, FLCA, the wholly owned subsidiaries of Premier Farm Credit, ACA.

INVESTING IN AGRICULTURE AND RURAL COMMUNITIES

We are a mission-based organization committed to serving agriculture and rural communities, today and tomorrow. We demonstrate our dedication through our outreach and giving efforts, primarily focused on agriculture, community activities, outreach, education, and youth.

HIGHLIGHTS

GRO PROGRAM

2019 was another successful year for our GRO Program (grants for 4-H and FFA members). The 7 recipients for 2019/2020 demonstrated a wide variety of diversity, need, experience and project types. The GRO Program aims to facilitate increased participation in 4-H and FFA, foster learning about agriculture, and inspire a lifelong passion for ag.

KID'S WARM CLOTHES

Our employees teamed up in October to donate their time and money to purchase coats, hats, boots and gloves for 35 kids in Logan County that were facing the winter without them. The Logan County Department of Human Services facilitated and distributed the gear on behalf of PFC.

PATRONAGE

We paid a record $5.5 Million Cash Patronage Dividend to our member-owners, early. This record payout returned approximately 38% of our 2019 earnings and effectively **reduced the average interest rate paid on direct loans in 2019 by about 1%.**

OGALLALA COMMONS

Premier funded four interns through the Ogallala Commons program, which is focused on reinvigorating communities in the Great Plains region that are located over the Ogallala Aquifer. This experience helps establish pathways for young people to return to their hometowns. This year's interns were based in Haxtun and Holyoke.

CSU STUDENT BOARD

Our Colorado State University Student Board of Directors gives us the chance to build meaningful relationships with young producers and students, gain insight into the future of the industry and create useful materials for our followers.

EDUCATIONAL OUTREACH

We hosted a 'Lasting Legacy' seminar, created a series of Financial Literacy Guides, and shared helpful financial information across a variety of mediums - including our blog, our newsletter, on Facebook, Twitter and LinkedIn, and as in-person material for employees to share.

KEY INITIATIVES

- GRO Program
- Cash Patronage Dividend
- CSU Student Board of Directors
- Ogallala Commons
- Scholarships
- Educational Outreach
- County Fairs
- Annie's Project
- 4-H & FFA sponsorships, donations, and volunteer work
- CSU AG Days
- MCC Center for Ag Innovation Campus
- Colorado FFA Foundation
- Colorado Young Farmers
- Community Foundation of Northern Colorado
- NJC College Foundation
- Logan County Shooting Sports
- Colorado State High School Rodeo

...and too many more to list!

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2019	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$ 711,281**	$ 679,654	$ 673,782	$ 663,887	$ 643,743
Less allowance for loan losses	**2,178**	2,790	2,796	2,508	2,133
Net loans	**709,103**	676,864	670,986	661,379	641,610
Investment in CoBank, ACB	**21,782**	21,639	21,547	20,860	19,670
Other assets	**31,665**	28,943	28,343	23,623	21,250
Total assets	**$ 762,550**	$ 727,446	$ 720,876	$ 705,862	$ 682,530
Obligations with maturities of one year or less	**$ 21,110**	$ 17,605	$ 20,451	$ 16,351	$ 17,443
Obligations with maturities longer than one year	**570,174**	547,441	547,948	545,410	529,566
Reserve for unfunded commitments	**351**	337	426	387	218
Total liabilities	**591,635**	565,383	568,825	562,148	547,227
Capital stock	**867**	862	901	938	956
Unallocated retained earnings	**170,325**	161,486	151,540	142,826	134,402
Accumulated other comprehensive income/(loss)	**(277)**	(285)	(390)	(50)	(55)
Total shareholders' equity	**170,915**	162,063	152,051	143,714	135,303
Total liabilities and shareholders' equity	**$ 762,550**	$ 727,446	$ 720,876	$ 705,862	$ 682,530

	For the Year Ended December 31				
	2019	2018	2017	2016	2015
Statement of Income/(Expense) Data					
Net interest income	**$ 19,522**	$ 18,535	$ 18,148	$ 17,376	$ 16,313
Patronage distribution from Farm Credit institutions	**2,531**	3,019	2,568	2,749	2,285
Credit loss reversal/(Provision for credit losses)	**484**	122	(324)	(293)	(451)
Noninterest expense, net	**(8,198)**	(7,214)	(7,923)	(7,819)	(7,401)
(Provision for)/Benefit from income taxes	**-**	(16)	(5)	(89)	63
Net income	**$ 14,339**	$ 14,446	$ 12,464	$ 11,924	$ 10,809
Comprehensive income	**$ 14,347**	$ 14,551	$ 12,124	$ 11,929	$ 10,822

Key Financial Ratios					
For the Year					
Return on average assets	**1.98%**	2.03%	1.78%	1.76%	1.68%
Return on average shareholders' equity	**8.47%**	9.07%	8.33%	8.45%	8.13%
Net interest income as a percentage of average earning assets	**2.85%**	2.75%	2.73%	2.70%	2.67%
Net charge-offs/(recoveries) as a percentage of average net loans	**0.02%**	<(0.01%)	<(0.01%)	(0.04%)	<(0.01%)
At Year End					
Shareholders' equity as a percentage of total assets	**22.41%**	22.28%	21.09%	20.36%	19.82%
Debt as a ratio to shareholders' equity	**3.46:1**	3.49:1	3.74:1	3.91:1	4.04:1
Allowance for loan losses as a percentage of loans	**0.31%**	0.41%	0.41%	0.38%	0.33%
Common equity tier 1 (CET1) capital ratio	**19.14%**	18.47%	17.37%	N/A	N/A
Tier 1 capital ratio	**19.14%**	18.47%	17.37%	N/A	N/A
Total regulatory capital ratio	**19.45%**	18.87%	17.81%	N/A	N/A
Tier 1 leverage ratio	**20.85%**	20.09%	18.91%	N/A	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**21.32%**	20.56%	19.29%	N/A	N/A
Permanent capital ratio	**19.19%**	18.53%	17.44%	17.27%	16.71%
Total surplus ratio	**N/A**	N/A	N/A	17.14%	16.57%
Core surplus ratio	**N/A**	N/A	N/A	17.14%	16.57%
Net Income Distribution					
Cash patronage distributions paid	**$ 4,500**	$ 3,750	$ 3,500	$ 3,000	$ 3,500
Cash patronage declared	**$ 5,500**	$ 4,500	$ 3,750	$ 3,500	$ 3,000

Management's Discussion and Analysis

Introduction

The following discussion summarizes the financial position and results of operations of Premier Farm Credit, ACA (Association) for the year ended December 31, 2019. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

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

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.premieraca.com, or upon request. We are located at 202 Poplar Street, Sterling, Colorado 80751, or may be contacted by calling (970) 522-5295.

Business Overview

Farm Credit System Structure and Mission

We are one of 68 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of northeastern Colorado. The counties in our territory are listed in Note 1 of the accompanying consolidated financial statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses, and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts and provide additional services to borrowers such as leasing and fee appraisals. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 202 Poplar Street, Sterling, Colorado 80751, or by calling (970) 522-5295. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. We entered into a new agreement effective January 1, 2019, that was scheduled to expire on December 31, 2021. However, a revised service agreement was signed effective January 1, 2020 and will expire on December 31, 2022. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for a number of Farm Credit institutions, provides administration for our payroll and benefits and may provide related human resource offerings.

ECONOMIC OVERVIEW

During 2019, agricultural economic conditions in our region remained relatively constant despite a volatile market, and political and weather issues. While many operations continue to remain financially stable due to management expertise and strong equity, a general erosion of working capital and loan margins continued to take place. During 2019, cash grain prices remained depressed due to a variety of factors, including a prolonged trade war. Local weather conditions added to the hardship, as much of the area dealt with major weather issues such as hail, wind, colder temperatures, and excess or insufficient moisture. Additionally, producers suffered losses from invasive insects and weeds that are new to the area. Livestock producers continued to deal with extended low prices, losses due to blizzards, suboptimal weather and tight feed situations due to crop failures. Overall, however, producers benefitted from USDA's Market Facilitation Program payments, and had some ability to manage costs and capture market opportunities.

Crop yields were generally average across the territory in 2019. Corn and wheat production were somewhat above average in certain areas and significantly below average in others. However, cash grain prices remain below the cost of production for many producers resulting in continued losses for this sector. Sugar beet production experienced a difficult year with yields down and significant harvest disruptions due to weather, as well as issues with marketability of crops through the local sugar beet cooperative. These segments of the loan portfolio continue to exhibit more credit stress, as some producers continued to suffer operating losses resulting in a deterioration of working capital and loan margins. Cow calf and feedlot and stocker operations remain marginally profitable with flat calf prices. Producers continue to make strategic decisions and adjustments to their operations to deal with the realization that commodity prices may remain low for an extended period. The production outlook for 2020 looks potentially challenging with the area receiving limited fall and winter moisture and continued evolving threats to crop and livestock health. However, irrigation and water supplies are anticipated to be adequate with local reservoirs being full, and producers are continually improving management practices to deal with challenges.

General economic conditions outside of agriculture remained mostly stable in 2019. The national unemployment rate closed the year at 3.5%, down from 3.9% in December 2018. Colorado's unemployment rate closed 2019 at 2.5%, 5th lowest in the nation. The general economy continues to benefit from job growth, increased household spending, and strength in the housing sector. Locally, the economy reflects this trend with low unemployment and stable housing prices. The Federal Open Market Committee (Committee) reversed nearly all of 2018's rate increases in 2019, citing uncertainty from the trade war and slowing global growth. Going forward, it is anticipated that the Committee will remain in a more neutral mode, waiting to see economic deterioration before rates are cut again. Inflation closed the year at 1.76% and is a closely watched measure when coupled with the low federal funds rate.

In politics, 2019 was a busy year with major victories for agriculture. The United States Mexico and Canada (USMCA) trade agreement was near passage at the end of 2019 and signed into law in January 2020, which will open trade with these key partners. The Farm Workforce Modernization Act was passed, which provides clarity and a path forward to those producers reliant on alien farmworkers, including provisions establishing a certified agricultural worker (CAW) status and changing the H-2A temporary worker program partners. Additionally, agreement on Phase 1 of a key trade agreement with China was reached in December 2019. Actual results of this agreement remain to be seen, but it has served as a clear signal that increased trade with China is likely to resume and provided much needed optimism. Due to the impending presidential election in 2020, the political climate increased in volatility and tension as 2019 progressed. This and other regulatory issues continue to impact agriculture and the general economy. In addition, the general public and elected officials continue to grow more removed from the reality of today's production agriculture, resulting in increased political and social pressure for producers to face.

The credit quality of the purchased loan portfolio remained stable in 2019. This is attributed to the continued strength of the general economy and lower raw commodity prices, which benefit many of the businesses in this portfolio. The broad commodity sectors financed within the purchased loan portfolio serves as a method to diversify overall portfolio risk. While the purchased loan portfolio does have areas that reflect potential risk, the portfolio is not expected to experience material stress in 2020.

Loan growth was above our projections in 2019. Portfolio growth was achieved in purchased loans, and an increase was realized in all direct loan categories. This can be attributed to a variety of factors, including special loan programs and an increased focus on marketing producers by loan officers. Credit quality improved in the direct loan portfolio due to borrowers restructuring of debt and liquidation of some capital assets. Credit quality is anticipated to remain sound in 2020, insulated in part with the diversification of the purchased loan portfolio.

Over the last few years, our pension expense has been decreasing; however, due to certain assumptions utilized in estimating plan expenses, our 2020 pension expense is anticipated to increase significantly.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide additional risk management options to dairy operations. The Farm Bill also clarifies the Insurance Corporation's authority, role and procedures for acting as a conservator or receiver of a troubled System institution. The Farm Bill provides a range of statutory options to the Insurance Corporation including, but not limited to, marshalling and liquidating assets, satisfying claims of creditors and using interim devices such as bridge banks. Many provisions of the Farm Bill will require the United States Department of Agriculture (USDA) to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain.

LOAN PORTFOLIO

Total loans outstanding were $711.3 million at December 31, 2019, an increase of $31.6 million, or 4.7%, from loans at December 31, 2018 of $679.7 million, and an increase of $37.5 million, or 5.6%, from loans at December 31, 2017 of $673.8 million. The increase in loans was due to growth in both the direct loan portfolio and participations purchased portfolio. Direct loan volume growth was attributed to strong term-loan demand combined with increased borrowing on operating lines of credit. Purchased loan volume increased due to new loan purchases through our arrangements with the Commercial Finance Group (CFG) and others. The types of loans outstanding at December 31 are reflected in the following table.

	2019		2018		2017	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$383,380**	**53.9%**	$378,619	55.7%	$382,589	56.8%
Production and intermediate-term loans	**166,869**	**23.5%**	158,114	23.3%	153,827	22.8%
Agribusiness loans	**116,145**	**16.3%**	102,086	15.0%	100,027	14.8%
Rural infrastructure loans	**37,082**	**5.2%**	36,846	5.4%	33,353	5.0%
Agricultural export finance loans	**7,651**	**1.1%**	3,989	0.6%	3,986	0.6%
Rural residential real estate	**154**	**–**	–	–	–	–
Total	**$711,281**	**100.0%**	$679,654	100.0%	$673,782	100.0%

Real estate mortgage loans outstanding increased 1.3% to $383.4 million, compared with $378.6 million at year-end 2018, primarily due to stronger new loan demand. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 5.5% to $166.9 million, compared with 2018 loans of $158.1 million, primarily due to new loan demand, advances on revolving lines of credit, and reduced loan prepayments. Production loans are used to finance the ongoing operating needs of agricultural producers and generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years. Our production and intermediate-term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons to meet farmers' operating and capital needs. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

Agribusiness loans increased 13.8% to $116.1 million compared with 2018 loans of $102.1 million, due to new participations purchased within this portfolio segment. Increases were also noted in rural infrastructure and agricultural export finance volume due to loan participation activity. At December 31, 2019 approximately 98% of agribusiness and 100% of rural infrastructure and agricultural export finance volume were a result of loan participations.

Portfolio Diversification

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

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

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

(dollars in thousands)	**2019**	2018	2017
Participations purchased	**$ 221,430**	$ 198,622	$ 184,099
Participations sold	**$ 30,079**	$ 42,122	$ 16,372

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loan participations outside our territory, which are included in Other in the following table.

	2019	2018	2017
Logan	**10.37%**	10.88%	11.05%
Morgan	**9.63%**	8.94%	9.27%
Phillips	**9.23%**	11.23%	11.58%
Sedgwick	**0.95%**	1.04%	1.00%
Washington	**7.01%**	7.23%	7.03%
Yuma	**20.58%**	20.06%	19.75%
Other Colorado Counties	**9.36%**	10.29%	11.38%
Other States	**32.87%**	30.33%	28.94%
Total	**100.00%**	100.00%	100.00%

Our largest volume concentration is in Yuma County due to its physical size and the scale of operations relative to other counties. The Other Colorado counties category represents 9.36% of the portfolio, a 0.93% decrease from 2018. The Other States category represents 32.87% of the portfolio, a 2.54% increase from 2018. The increase in Other States relates primarily to participations purchased.

We are party to a Territorial Concurrence Agreement (Agreement) with Farm Credit of Southern Colorado, ACA. The Agreement reduces territorial restrictions and allows each association to make loans in the other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. Either association can terminate this Agreement with 30 days written notice.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity.

	December 31		
SIC Category	**2019**	2018	2017
Corn	**31.53%**	32.79%	32.15%
Beef	**18.70%**	19.24%	19.63%
Wheat	**8.21%**	8.71%	8.98%
Landlords	**5.67%**	5.16%	6.28%
Hay	**1.89%**	1.91%	1.85%
Other	**34.00%**	32.19%	31.11%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of corn, beef, and wheat producers. The Other category reflects 34.00% of the volume and is comprised of 97 separate commodity groups; with the largest representing 2.42% of the total. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral, which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers, which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our outstanding loan volume at December 31, 2019, approximately 61% consists of borrowers with income not solely from agricultural sources, an increase from 60% for 2018, and 56% for 2017.

The loans outstanding at December 31, 2019 for loans $250 thousand or less accounted for 19.2% of loan volume and 70.2% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

	2019		2018		2017	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 136,882**	**1,667**	$ 134,443	1,666	$ 136,920	1,716
$251 - $500	**116,840**	**329**	114,008	323	120,818	340
$501 - $1,000	**168,005**	**234**	171,893	234	162,593	221
$1,001 - $5,000	**257,279**	**142**	221,466	128	226,199	131
$5,001 – 25,000	**32,275**	**4**	37,844	4	27,252	3
Total	**$ 711,281**	**2,376**	$ 679,654	2,355	$ 673,782	2,411

Approximately 13% of our loans outstanding is attributable to 10 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $17.2 million at year-end 2019, $14.8 million at year-end 2018 and $11.9 million at year-end 2017 were outstanding. The Association utilizes Farm Service Agency (FSA) 90% or 95% loan guarantees when appropriate to manage credit risk. The United States Government guarantees to pay 90% to 95%, depending on the percent guaranteed, of any loss incurred on the FSA guarantee loans.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2019.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 68,387	$ 66,892	$ 56,834	$ 9,456	$ 201,569
Standby letters of credit	1,511	484	283	171	2,449
Total commitments	$ 69,898	$ 67,376	$ 57,117	$ 9,627	$ 204,018

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. We consider potential losses related to unfunded commitments, and a reserve for unfunded commitments is included in the liabilities section of the Consolidated Statement of Condition. The related provision for the reserve for unfunded commitment is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive Income.

High Risk Assets

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

(dollars in thousands)	**2019**	2018	2017
Nonaccrual loans:			
Real estate mortgage	**$ 78**	$ 1,816	$ 2,987
Production and intermediate-term	**–**	–	291
Agribusiness	**758**	1,421	1,268
Total nonaccrual loans	**836**	3,237	4,546
Total high risk assets	**$ 836**	$ 3,237	$ 4,546
Nonaccrual loans to total loans	**0.12%**	0.48%	0.67%
High risk assets to total loans	**0.12%**	0.48%	0.67%
High risk assets to total shareholders' equity	**0.49%**	2.00%	2.99%

We had no loans classified as restructured, 90 days past due still accruing interest and no other property owned for the years presented.

Total high risk assets decreased $2.4 million, or 74.2%, to $836 thousand at December 31, 2019 compared with year-end 2018. The reduction in high risk assets was largely due to pay downs, payoffs and improved credit quality in our portfolio.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $2.4 million compared with December 31, 2018 and decreased $1.3 million in 2018 compared with December 31, 2017 due to payoffs. At December 31, 2019, nine loans to three borrowers were nonaccrual. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	**2019**	2018	2017
Nonaccrual loans current as to principal and interest	**$ 266**	$ 2,460	$ 2,081
Restructured loans in nonaccrual status	**$ 267**	$ 451	$ –

For the years presented, we had no cash basis nonaccrual loans.

High risk asset volume is anticipated to increase in the future. Adverse economic conditions, low commodity prices, stressed asset values, weather conditions, and deterioration in the agricultural economy may be factors that could contribute to the increase.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Following are the classification definitions.

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

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

	2019	2018	2017
Acceptable	**87.34%**	86.28%	85.31%
OAEM	**7.36%**	6.61%	6.87%
Substandard	**5.30%**	7.11%	7.82%
Total	**100.00%**	100.00%	100.00%

During 2019, overall credit quality improved. Loans classified as Acceptable and OAEM were 94.70% at December 31, 2019, 92.89% at December 31, 2018 and 92.18% at December 31, 2017. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased, however, and remained at a low level of 0.80% at December 31, 2019, compared with 0.40% at December 31, 2018 and 0.03% at December 31, 2017.

Allowance for Loan Losses

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

(dollars in thousands)	**2019**	2018	2017
Balance at beginning of year	**$ 2,790**	$ 2,796	$ 2,508
Charge-offs:			
Production and intermediate-term	**1**	1	1
Agribusiness	**130**	–	–
Total charge-offs	**131**	1	1
Recoveries:			
Production and intermediate-term	**6**	6	4
Agribusiness	**11**	–	–
Rural infrastructure	**–**	22	–
Total recoveries	**17**	28	4
Net charge-offs/(recoveries)	**114**	(27)	(3)
(Loan loss reversal)/Provision for loan losses	**(498)**	(33)	285
Balance at December 31	**$ 2,178**	$ 2,790	$ 2,796
Net charge-offs/(recoveries) to average net loans	**0.02%**	<(0.01%)	<(0.01%)

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

(dollars in thousands)	**2019**	2018	2017
Real estate mortgage	**$ 480**	$ 1,132	$ 1,078
Production and intermediate-term	**796**	750	956
Agribusiness	**650**	683	571
Rural infrastructure	**219**	208	175
Agricultural export finance	**33**	17	16
Total	**$ 2,178**	$ 2,790	$ 2,796

The allowance for loan losses decreased $612 thousand from December 31, 2018, to $2.2 million at December 31, 2019. The decrease in allowance for loan losses was primarily due to the loan loss reversals totaling $498 thousand that were recorded due to reduced qualitative management reserves of $491 thousand and improved credit quality. Net charge-offs of $114 thousand were recorded during 2019 related to charge-offs in the agribusiness sector of the participation portfolio. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2018, our allowance for loan losses decreased $6 thousand from 2017 primarily due to the loan loss reversals totaling $33 thousand that were recorded due to improved credit quality, and net recoveries of $27 thousand recorded during 2018. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2019	2018	2017
Allowance as a percentage of:			
Loans	**0.31%**	0.41%	0.41%
Impaired loans	**260.53%**	86.19%	61.50%
Nonaccrual loans	**260.53%**	86.19%	61.50%

We maintain a separate reserve for unfunded commitment, which is included in Liabilities on our 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 commitment follows.

(dollars in thousands)	**2019**	2018	2017
Balance at beginning of year	**$ 337**	$ 426	$ 387
Provision for/(Reversal of) reserve for unfunded commitments	**14**	(89)	39
Balance at December 31	**$ 351**	$ 337	$ 426

The increase in provision for reserve for unfunded commitments in 2019 was primarily due to additional commitments to extend credit.

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. Our YBS mission statement is as follows:

PREMIER FARM CREDIT, ACA WILL ENCOURAGE THE FINANCING OF YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS BY IMPLEMENTING PROGRAMS DESIGNED TO MEET THE NEEDS OF THESE APPLICANTS TO THE FULLEST EXTENT OF THEIR CREDITWORTHINESS.

Following are FCA regulatory definitions for YBS farmers and ranchers.

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

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS with debt within our territory per the 2017 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	**2019**	2018	2017
Young	18.26%	**21.63%**	23.02%	20.43%
Beginning	24.82%	**21.00%**	22.00%	19.84%
Small	63.18%	**34.49%**	35.57%	33.82%

Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While this definition difference does exist, the information is the best comparative information available.

We offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory. Such services include crop insurance, credit life insurance, advance conditional payment accounts, fee appraisals, and equipment/vehicle leasing programs. We increase opportunities for YBS farmers by coordinating credit and credit services in the territory utilizing governmental and private sources. We utilize the Farm Service Agency (FSA) programs such as the 50/50 program or the 50/45/5 program. We continue to utilize FSA loan guarantees to assist us in meeting the needs of YBS borrowers. We have implemented effective outreach programs to attract YBS farmers and ranchers through sponsorships in area YBS organizations. We sponsor seminars that have YBS farmers as members or attendees. Our continued use of social media will strengthen our brand and allows us to reach a wider potential customer base. In addition, we are proud to invest in the future of our area youth by providing four $1,000.00 scholarships. The eligibility criteria allow the scholar to attend the school of their choice. Furthermore, we continue to maintain a Premier Farm Credit Student Board at Colorado State University, which gives us more visibility with the students and Ag Department at Colorado State University. We also provide monetary donations to young farmer organizations as well as area high school events and organizations such as 4-H and FFA. Staff members serve as 4-H Livestock judging coaches or as members of an FFA Advisory Board. Our qualitative efforts are strongly successful as all personnel are actively involved in furthering the opportunities for YBS producers within our territory. We continue to support the System's partnership with the Farmer Veteran Coalition, an organization aimed at mobilizing veterans to enter agriculture and feed America. We also support the System's "Home Grown by Heroes" program to help boost the marketing efforts for agriculture products produced by U.S. farmer veterans.

During 2019, we donated to 91 different groups or organizations where YBS members are active. We are proud to report that 54% of the members of the Stockholder's Advisory Committee and the Nominating Committee are reflected as young, beginning and/or small in the database.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress. Quantitative goals established in the 2020 Business Plan reflect an annual growth rate of 2.5% for Young, Beginning, and Small Farmers within loan numbers and classified volume.

The three year goals we have established to increase market share of loans to YBS farmers and ranchers are as follows:

(dollars in thousands)	Young Farmer/Rancher		Beginning Farmer/Rancher		Small Farmer/Rancher	
Year	Number	Volume	Number	Volume	Number	Volume
12/31/2020	390	$ 88,190	378	$ 77,840	621	$ 63,976
12/31/2021	399	$ 90,395	388	$ 79,786	637	$ 65,575
12/31/2022	409	$ 92,654	397	$ 81,781	653	$ 67,214

As reflected in the following chart, during 2019, we experienced loan reduction in each of the young, beginning, and small categories, and loan volume reduction in the young category. Loan volume increased in the beginning and small categories. Capital asset prices continued to remain high during 2019, making it difficult for the young and beginning farmers to begin farming operations. Cash grain commodity prices deteriorated, while livestock prices remained relatively flat, which affected the 2019 results. Input and living costs have not recognized corresponding declines. These factors present challenges for young and beginning farmers. In order to recognize profits, many farmers have diversified their operations in other commodity areas. Diversification is more difficult for young, beginning, and small farmers due to the amount of capital required for equipment or livestock. The deterioration in the commodity prices will continue to affect many producers over the course of the next few years.

($000's)	Young	Beginning	Small
2019 Goal	421	403	651
	$93,986	$75,430	$59,487
2019 Actual	380	369	606
	$86,039	$75,942	$62,415
2018 Actual	409	391	632
	$91,249	$73,233	$57,755

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we have developed specific lending products directed at serving the YBS producers in our territory. These products include YBS specific loan programs, including the YBS Stocker Cattle Program, YBS Breeding Cattle Program and YBS Crop Farming Program. In addition, we utilize loan guarantee programs, fee waivers, and interest rate concessions to qualified YBS farmers. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

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

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

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

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our lending and lease limit base. The lending and lease limit base is defined as permanent capital with any applicable adjustments related to preferred stock and any investment held in connection with the sale of loan participation interest. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established based on loan quality for loans originated by our Association, loans originated outside of our Association, and special lending programs. We have adopted an individual lending limit maximum of 14% of lending and lease limit base for our highest quality borrowers.

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

The majority of our lending is first mortgage real estate loans, which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate.

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2019, we recorded net income of $14.3 million, compared with $14.4 million in 2018, and $12.5 million in 2017. The decrease in 2019 was primarily due to a decrease in noninterest income and an increase in operating expenses. These factors were partially offset by an increase in net interest income, a decrease in provision for credit losses, and a reduced provision for income taxes. The increase in 2018 was primarily due to increases in net interest income and noninterest income along with a decrease in provision for credit losses. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2019 vs. 2018**	2018 vs. 2017
Net income, prior year	**$ 14,446**	$ 12,464
Increase/(Decrease) from changes in:		
Interest income	**1,803**	2,701
Interest expense	**(816)**	(2,314)
Net interest income	**987**	387
Provision for credit losses	**362**	446
Noninterest income	**(1,031)**	1,307
Noninterest expense	**(441)**	(147)
Provision for income taxes	**16**	(11)
Total (decrease)/increase in net income	**(107)**	1,982
Net income, current year	**$ 14,339**	$ 14,446

Return on average assets decreased to 1.98% from 2.03% in 2018, and return on average shareholders' equity decreased to 8.47% from 9.07% in 2018, primarily as a result of average assets and average shareholders' equity increasing while net income decreased from 2018.

Net Interest Income

Net interest income for 2019 was $19.5 million compared with $18.5 million for 2018 and $18.1 million for 2017. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to increased loan volume and higher loan interest rates. The following table provides an analysis of the individual components of the change in net interest income during 2019 and 2018.

(dollars in thousands)	**2019 vs. 2018**	2018 vs. 2017
Net interest income, prior year	**$ 18,535**	$ 18,148
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**1,083**	2,181
Interest rates paid	**(782)**	(2,278)
Volume of interest-bearing assets and liabilities	**448**	422
Interest income on nonaccrual loans	**238**	62
Increase in net interest income	**987**	387
Net interest income, current year	**$ 19,522**	$ 18,535

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2019	2018	2017
Net interest margin	**2.85%**	2.75%	2.73%
Interest rate on:			
Average loan volume	**5.04%**	4.84%	4.51%
Average debt	**2.72%**	2.57%	2.16%
Interest rate spread	**2.32%**	2.27%	2.35%

The increase in interest rate spread resulted from a 20 basis point increase in interest rates on average loan volume and a 15 basis point increase in interest rates on average debt. The increase in net interest margin in addition to the change in spread was due to higher earnings on our own capital.

Provision for Credit Losses/(Credit Loss Reversals)

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitment is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net credit loss reversals of $484 thousand in 2019, compared with $122 thousand in 2018 and net provision for credit losses of $324 thousand in 2017. The loan loss reversals of $498 thousand recorded during 2019 were primarily due to reduced qualitative management reserves of $491 thousand and improved credit quality. The provision for reserve for unfunded commitments of $14 thousand was recorded during 2019 primarily due to additional commitments to extend credit.

The loan loss reversals recorded in 2018 were primarily due to improved credit quality. The reversal for reserve for unfunded commitments of $89 thousand was recorded during 2018 due to improved credit quality. The provision for loan losses recorded in 2017 was primarily due to credit quality changes resulting in the cumulative adjustments to both general and management reserves. The provision for reserve for unfunded commitments recorded in 2017 was primarily due to improved credit quality.

Noninterest Income

During 2019, we recorded noninterest income of $4.2 million, compared with $5.3 million in 2018 and $4.0 million in 2017. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was $2.5 million in 2019, $3.0 million in 2018, which included a one-time cash patronage distribution of $351 thousand relating to tax reform changes, and $2.6 million in 2017.

During August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of market place challenges. The changes were intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The plan included a reduction to our patronage income in 2018 of 5 basis points on participation loans with CoBank. Additionally, the changes include a reduction in patronage related to our direct note with CoBank for all other loans of 5 basis points in 2019 and a further reduction of 4 basis points in 2020. During 2019, we received 95 basis points on participation loans and 40 basis points on our direct note with CoBank for all other loans. In 2018, we received 95 basis points on participation loans and 45 basis points on our direct note with CoBank for all other loans.

In 2019, we recorded a cash patronage of $7 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services, which will be paid in the following year. This compares with $6 thousand recorded in 2018 and $7 thousand in 2017. Patronage from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of $163 thousand during 2019 and $437 thousand during 2018 from Farm Credit System Insurance Corporation (FCSIC). The FCSIC refund is our portion of excess funds above the secure base amount in the FCSIC Allocated Insurance Reserve Accounts.

We received mineral income of $532 thousand during 2019, which is distributed to us quarterly by CoBank. Mineral income increased from $488 thousand in 2018 and $438 thousand in 2017. The increase is attributed to increased production revenue resulting from additional wells being brought online.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2019 were $335 thousand, a decrease of $21 thousand from 2018. The decrease was attributed to increased deferral of loan fees, partially offset by increased loan conversion fees. Financially related services income in 2019 was $506 thousand, a decrease of $95 thousand from 2018. The decrease was primarily attributed to reduced crop insurance commission revenue and lower fee appraisal income. These decreases were partially offset by increased rural home loan origination fee income.

Noninterest Expense

Noninterest expense for 2019 increased $441 thousand, or 4.7%, to $9.9 million compared with 2018 and $588 thousand, or 6.3% compared with 2017. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2019**	2018	2017	**2019/2018**	2018/2017
Salaries & employee benefits	**$ 5,115**	$ 5,102	$ 5,078	**0.25%**	0.47%
Occupancy & equipment	**437**	431	449	**1.39%**	(4.01%)
Purchased services from AgVantis	**1,640**	1,426	1,221	**15.01%**	16.79%
Supervisory & examination costs	**288**	274	267	**5.11%**	2.62%
Other	**1,968**	1,771	1,542	**11.12%**	14.85%
Total operating expense	**9,448**	9,004	8,557	**4.93%**	5.22%
Farm Credit Insurance Fund premium	**448**	451	751	**(0.67%)**	(39.95%)
Total noninterest expense	**$ 9,896**	$ 9,455	$ 9,308	**4.66%**	1.58%

For the year ended December 31, 2019, total operating expense increased $444 thousand, or 4.9%, compared with the year ended December 31, 2018. Salary and employee benefits increased in 2019 and 2018 due to increased salaries, bonus and incentives, pension expense, and other retirement benefit expenses. Occupancy and equipment increased in 2019 due to an increase in furniture and equipment purchases and depreciation expense, but decreased in 2018 due to a reduction in furniture and equipment purchases and depreciation expense. Purchased services from AgVantis increased in 2019 and 2018, primarily due to an increase in fees charged. Supervisory and examination costs increased in 2019 and 2018 due to higher fees charged by FCA. Other expenses increased in 2019 and 2018 due to fluctuations in CFG loan servicing fees, training, advertising, and public relations expenses. Insurance Fund premium decreased $3 thousand to $448 thousand at December 31, 2019 due to a change in loan volume. The premium rate remained constant from 2018.

Provision for income taxes

We recorded no provision for income taxes during 2019, compared with $16 thousand in 2018 and $5 thousand in 2017. The decrease in 2019 was primarily due to decreased taxable earnings, while the increase in 2018 was due to increased taxable earnings. Tax expense was also impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

Tax expense in 2017 was impacted by the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with accounting principles generally accepted in the United States (GAAP), the change to the lower corporate tax rate led to a revaluation of our deferred tax assets and deferred tax liabilities in the period of enactment (2017). This change is a provisional estimate based on nuances within our operations.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $538.8 million in 2019, $536.9 million in 2018 and $535.5 million in 2017.

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

Interest Rate Risk

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

Funds Management

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

We have a relationship with CoBank, and First Horizon Bank to offer a purchase card program to commercial customers. The purchase cards are similar to credit cards and allow customers to make agricultural-related purchases, which are then automatically posted to the customer's loan on a monthly basis. We remit payment to First Horizon Bank on behalf of the borrowers each month for purchases made with the card.

Uncertainty Surrounding the Future of LIBOR

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

In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee (ARRC) of the Federal Reserve Board and the Federal Reserve Bank of New York. Specifically, the ARRC has proposed the Secured Overnight Financing Rate (SOFR) as the recommended alternative to LIBOR and the Federal Reserve Bank of New York began publishing SOFR in April 2018.

In September 2018, the FCA issued guidance for System institutions to follow as they prepare for the expected phase-out of LIBOR.

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, we are unable to predict whether or when LIBOR will cease to be available or if 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.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2019 totaled $170.9 million, compared with $162.1 million at December 31, 2018 and $152.1 million at December 31, 2017. The increase of $8.9 million in shareholders' equity reflects net income, net stock issuances and a decrease in accumulated other comprehensive loss, partially offset by patronage refunds. Our capital position is reflected in the following ratio comparisons.

	2019	2018	2017
Debt to shareholders' equity	**3.46:1**	3.49:1	3.74:1
Shareholders' equity as a percent of net loans	**24.10%**	23.94%	22.66%
Shareholders' equity as a percent of total assets	**22.41%**	22.28%	21.09%

Debt to shareholders' equity decreased and shareholders' equity as a percent of net loans and of total assets increased from 2018 primarily due to the growth in shareholders' equity exceeding the increases in net loans and total assets on a relative basis.

Retained Earnings

Our retained earnings increased $8.8 million to $170.3 million at December 31, 2019 from $161.5 million at December 31, 2018 and increased $18.8 million from $151.5 million at December 31, 2017. The increase in 2019 was a result of net income of $14.3 million, partially offset by $5.5 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $4.5 million in 2019, $3.8 million in 2018 and $3.5 million in 2017. During 2019, we declared patronage distributions of $5.5 million to be paid in February 2020.

Stock

Our total stock increased $5 thousand to $867 thousand at December 31, 2019, from $862 thousand at December 31, 2018 and decreased from $901 thousand at December 31, 2017. The increase during 2019 was due to $47 thousand of stock issuances offset by $42 thousand of stock retirements. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $277 thousand at December 31, 2019, a decrease of $8 thousand compared with year-end 2018 and a decrease of $113 thousand compared with year-end 2017. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

Capital Plan and Regulatory Requirements

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

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

As shown in the following table, at December 31, 2019, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends.

	2019	2018	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**19.14%**	18.47%	17.37%	7.00%
Tier 1 Capital ratio	**19.14%**	18.47%	17.37%	8.50%
Total Capital ratio	**19.45%**	18.87%	17.81%	10.50%
Tier 1 Leverage ratio	**20.85%**	20.09%	18.91%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	**21.32%**	20.56%	19.29%	1.50%
Permanent capital ratio	**19.19%**	18.53%	17.44%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2019, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

As displayed in the following table we exceeded the minimum regulatory capital requirements in effect through December 31, 2016.

	2016	2015	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	17.27%	16.71%	17.42%	17.19%	18.56%	7.00%
Total surplus ratio	17.14%	16.57%	17.27%	17.03%	18.38%	7.00%
Core surplus ratio	17.14%	16.57%	17.10%	16.56%	17.70%	3.50%

Refer to Note 7, Shareholders' Equity, in this report for additional information on our capital and related requirements and restrictions.

REGULATORY MATTERS

As of December 31, 2019, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

GOVERNANCE

Board of Directors

We are governed by an eleven member board that provides direction and oversees our management. Of these directors, nine are elected by the shareholders and two are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer, provides for a plan of succession;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

The elected directors, as borrowers, have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of four members of the Board of Directors. During 2019, five meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

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

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of ten members of the Board of Directors, all deemed to be independent of any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as Committee members. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Policy Review Committee

The Policy Review Committee reports to the Board of Directors. The Policy Review Committee is composed of five members of the Board of Directors. During 2019, two meetings were held. The Committee semi-annually reviews, evaluates and recommends for approval to the Board of Directors various policies and procedures utilized by the Association.

Other Governance

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

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

Code of Ethics

Our directors and employees are responsible for maintaining the highest of standards in conducting our business. In that regard, we established a Code of Ethics for the Board of Directors and a Code of Ethics for all employees, including the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, and other senior financial professionals who are involved, directly or indirectly, with the preparation of our financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement our Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under the Standards of Conduct Policies. Likewise, all employees certify compliance with our Code of Ethics on an annual basis.

Whistleblower Program

We maintain a program for employee complaints related to accounting, financial reporting, internal accounting controls, or auditing matters. This program allows employees to submit confidential, anonymous concerns regarding accounting, financial reporting, internal accounting controls, fraud or auditing matters without the fear of reprisal, retaliation or adverse action being taken against any employee who, in good faith, reports or assists in the investigation of a violation or suspected violation, or who makes an inquiry about the appropriateness of an anticipated or actual course of action.

FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitment

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. Additionally, we provide line of credit financing to our customers. We have established a reserve for unfunded commitment to cover probable losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitment is increased through provision for the reserve for unfunded commitments and is decreased through reversals of the reserve for unfunded commitments. Provision for loan losses and provision for reserve for unfunded commitments are referred to as a provision for credit losses on the Consolidated Statement of Comprehensive Income. We determine the allowance for loan losses and the reserve for unfunded commitment based on a regular evaluation of the loan and commitment portfolios, which generally considers recent historical charge-off experience adjusted for relevant factors.

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

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

CUSTOMER PRIVACY

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

Premier Farm Credit, ACA
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REPORT OF MANAGEMENT

The consolidated financial statements of Premier Farm Credit, ACA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2019 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged Ann Wagner, an independent 3rd party, to perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate. The Association is also examined by the Farm Credit Administration.

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

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

Wayne A. Midcap
Chair of the Board

Michael Grauberger
President and Chief Executive Officer

Jeffrey L. Schumacher
Chief Financial Officer

March 9, 2020

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes four members from the Board of Directors of Premier Farm Credit, ACA (Association). In 2019, five Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2019.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2019 were $57,600 for audit services, $8,800 for tax services and $11,000 for additional audit services accrued in 2018.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2019 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2019 and for filing with the Farm Credit Administration.

Lyndsey D. Graves, Chair of the Audit Committee

<u>Audit Committee Members</u>
Lyndsey D. Graves
Randall W. Kirkwood
Rebecca K.W. Lenz
Lisa E. Shinn

March 9, 2020

Report of Independent Auditors

To the Board of Directors of
Premier Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Premier Farm Credit, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2019, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Premier Farm Credit, ACA and its subsidiaries as of December 31, 2019, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 9, 2020

PricewaterhouseCoopers LLP, 1100 Walnut Street, Suite 1300, Kansas City, MO 64106
T: (816) 472 7921, www.pwc.com/us

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2019	2018	2017
ASSETS			
Loans	**$ 711,281**	$ 679,654	$ 673,782
Less allowance for loan losses	**2,178**	2,790	2,796
Net loans	**709,103**	676,864	670,986
Cash	**12,840**	11,364	12,252
Accrued interest receivable	**10,786**	10,130	9,408
Investment in CoBank, ACB	**21,782**	21,639	21,547
Premises and equipment, net	**910**	967	1,023
Prepaid benefit expense	**2,666**	1,836	1,263
Other assets	**4,463**	4,646	4,397
Total assets	**$ 762,550**	$ 727,446	$ 720,876
LIABILITIES			
Note payable to CoBank, ACB	**$ 568,955**	$ 546,137	$ 546,917
Advance conditional payments	**11,019**	9,957	11,958
Accrued interest payable	**1,219**	1,304	1,031
Patronage distributions payable	**5,500**	4,500	3,750
Accrued benefits liability	**757**	697	711
Reserve for unfunded commitments	**351**	337	426
Other liabilities	**3,834**	2,451	4,032
Total liabilities	**$ 591,635**	$ 565,383	$ 568,825
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	**867**	862	901
Unallocated retained earnings	**170,325**	161,486	151,540
Accumulated other comprehensive income/(loss)	**(277)**	(285)	(390)
Total shareholders' equity	**170,915**	162,063	152,051
Total liabilities and shareholders' equity	**$ 762,550**	$ 727,446	$ 720,876

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2019	2018	2017
INTEREST INCOME			
Loans	**$ 34,470**	$ 32,667	$ 29,966
Total interest income	**34,470**	32,667	29,966
INTEREST EXPENSE			
Note payable to CoBank, ACB	**14,794**	14,010	11,766
Other	**154**	122	52
Total interest expense	**14,948**	14,132	11,818
Net interest income	**19,522**	18,535	18,148
(Credit loss reversal)/Provision for credit losses	**(484)**	(122)	324
Net interest income after (credit loss reversal)/provision for credit losses	**20,006**	18,657	17,824
NONINTEREST INCOME			
Financially related services income	**506**	601	515
Loan fees	**335**	356	282
Patronage distribution from Farm Credit institutions	**2,531**	3,019	2,568
Farm Credit Insurance Fund distribution	**163**	437	-
Mineral income	**532**	488	438
Other noninterest income	**162**	359	150
Total noninterest income	**4,229**	5,260	3,953
NONINTEREST EXPENSE			
Salaries and employee benefits	**5,115**	5,102	5,078
Occupancy and equipment	**437**	431	449
Purchased services from AgVantis, Inc.	**1,640**	1,426	1,221
Farm Credit Insurance Fund premium	**448**	451	751
Supervisory and examination costs	**288**	274	267
Other noninterest expense	**1,968**	1,771	1,542
Total noninterest expense	**9,896**	9,455	9,308
Income before income taxes	**14,339**	14,462	12,469
Provision for income taxes	**-**	16	5
Net income	**14,339**	14,446	12,464
COMPREHENSIVE INCOME			
Amortization of retirement costs	**55**	82	5
Actuarial (loss)/gain in retirement obligation	**(47)**	23	(345)
Total comprehensive income	**$ 14,347**	$ 14,551	$ 12,124

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2016	$ 938	$ 142,826	$ (50)	$ 143,714
Comprehensive income		12,464	(340)	12,124
Stock issued	38			38
Stock retired	(75)			(75)
Patronage Distributions: Cash		(3,750)		(3,750)
Balance at December 31, 2017	901	151,540	(390)	152,051
Comprehensive income		14,446	105	14,551
Stock issued	24			24
Stock retired	(63)			(63)
Patronage distributions: Cash		(4,500)		(4,500)
Balance at December 31, 2018	862	161,486	(285)	162,063
Comprehensive income		14,339	8	14,347
Stock issued	47			47
Stock retired	(42)			(42)
Patronage distributions: Cash		(5,500)		(5,500)
Balance at December 31, 2019	**$ 867**	**$ 170,325**	**$ (277)**	**$ 170,915**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 14,339**	$ 14,446	$ 12,464
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**160**	173	160
(Credit loss reversal)/Provision for credit losses	**(484)**	(122)	324
Patronage stock from CoBank, ACB	**(81)**	(66)	(37)
Gains on sales of premises and equipment	**(25)**	(8)	(1)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(656)**	(722)	161
Increase in prepaid benefit expense	**(830)**	(573)	(402)
Decrease/(Increase) in other assets	**264**	(183)	(219)
(Decrease)/Increase in accrued interest payable	**(85)**	273	158
Increase in accrued benefits liability	**68**	91	10
Increase/(Decrease) in other liabilities	**1,383**	(1,581)	547
Total adjustments	**(286)**	(2,718)	701
Net cash provided by operating activities	**14,053**	11,728	13,165
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(31,741)**	(5,845)	(9,892)
Increase in investment in CoBank, ACB	**(143)**	(92)	(687)
Expenditures for premises and equipment	**(103)**	(117)	(89)
Proceeds from sales of premises and equipment	**25**	8	1
Net cash used in investing activities	**(31,962)**	(6,046)	(10,667)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(repayment of) note payable to CoBank, ACB	**22,818**	(780)	2,380
Increase/(Decrease) in advance conditional payments	**1,062**	(2,001)	2,953
Capital stock retired	**(42)**	(63)	(75)
Capital stock issued	**47**	24	38
Cash patronage distributions paid	**(4,500)**	(3,750)	(3,500)
Net cash provided by/(used in) financing activities	**19,385**	(6,570)	1,796
Net increase/(decrease) in cash	**1,476**	(888)	4,294
Cash at beginning of year	**11,364**	12,252	7,958
Cash at end of year	**$ 12,840**	$ 11,364	$ 12,252
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 15,033**	$ 13,859	$ 11,660
Income taxes	**$ 14**	$ 8	$ 7
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 81**	$ 66	$ 37
Net charge-offs/(recoveries)	**$ 114**	$ (27)	$ (3)
Patronage distributions payable	**$ 5,500**	$ 4,500	$ 3,750
Change in accumulated other comprehensive income/(loss)	**$ 8**	$ 105	$ (340)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Premier Farm Credit, ACA and its subsidiaries, Premier Farm Credit, FLCA, (Federal Land Credit Association (FLCA)) and Premier Farm Credit, PCA, (Production Credit Association (PCA)), (collectively called "the Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Logan, Morgan, Phillips, Sedgwick, Yuma and Washington in the state of Colorado.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2019, the System was comprised of three Farm Credit Banks and one Agricultural Credit Bank (System Banks) and 68 associations.

CoBank, ACB (funding bank or the "Bank"), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 21 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA) and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

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

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

The Association also serves as an intermediary in offering credit life insurance, multi-peril crop and crop hail insurance, advance conditional payment accounts and provides additional services to borrowers such as leasing and fee appraisals.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 202 Poplar Street, Sterling, Colorado 80751 or by calling (970) 522-5295. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements (the "financial statements") of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Premier Farm Credit, PCA and Premier Farm Credit, FLCA and reflect the investments in and allocated earnings of the service organizations in which the Association has partial ownership interests. Inter-company transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in prior year's financial statements have been reclassified to conform to current financial statement presentation. The accounting and reporting policies of the Association conform to GAAP and prevailing practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost." The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance became effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. The Association has evaluated the impact of adoption on the Association's financial condition and its results of operations and determined the impact to be immaterial.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans." The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The adoption of this guidance will not impact the Association's financial condition or its results of operations, but will impact the fair value measurements disclosures. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018.

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 becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association is evaluating the impact of adoption on its financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association’s financial condition or its results of operations.

Summary of the Association’s Significant Accounting Policies

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

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

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

   A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor’s financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association’s economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

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

   In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a troubled debt restructuring. If the borrower’s ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The Association purchases loan participations from other System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. Loans are sold and the sale terms comply with requirements under Accounting Standards Codification (ASC) 860 "Transfers and Servicing."

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

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

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

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

B. Cash: Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the buildings ranges from 24 to 40 years, and from 1 to 10 years for furniture and equipment, and from 1 to 5 years for automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

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

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

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

The 401(k) Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue code. The Association matches a certain percentage of employee contributions. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

The Association also participates in the Ninth District nonqualified defined benefit Pension Restoration Plan. This plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under this plan are offset by the benefits payable from the pension plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

H. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned.

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

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

Deferred income taxes have not been recorded by the Association on stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in CoBank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

J. Other Comprehensive Income/Loss: Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan. See Note 7 for further information.

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

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds which relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions about factors that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include other property owned.

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2019	2018	2017
Real estate mortgage	**$ 383,380**	$ 378,619	$ 382,589
Production and intermediate-term	**166,869**	158,114	153,827
Agribusiness	**116,145**	102,086	100,027
Rural infrastructure	**37,082**	36,846	33,353
Agricultural export finance	**7,651**	3,989	3,986
Rural residential real estate	**154**	–	–
Total loans	**$ 711,281**	$ 679,654	$ 673,782

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2019.

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	$ 25,930	$ 25,825
Production and intermediate-term	37,056	4,254
Agribusiness	113,710	–
Rural infrastructure	37,083	–
Agricultural export finance	7,651	–
Total	$ 221,430	$ 30,079

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

Credit enhancements with federal government agencies of $17.2 million at year-end 2019, $14.8 million at year-end 2018 and $11.9 million at year-end 2017 were outstanding. The Association utilizes Farm Service Agency (FSA) 90% or 95% loan guarantees when appropriate to manage credit risk. The United States Government guarantees to pay 90% to 95%, depending on the percent guaranteed, of any loss incurred on the FSA guaranteed loans.

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 FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2019	2018	2017
Real estate mortgage			
Acceptable	**85.78%**	84.32%	83.61%
OAEM	**9.11%**	7.38%	7.77%
Substandard	**5.11%**	8.30%	8.62%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**83.55%**	81.26%	77.58%
OAEM	**6.93%**	9.45%	10.72%
Substandard	**9.52%**	9.29%	11.70%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**95.91%**	97.06%	98.40%
OAEM	**2.84%**	0.86%	–
Substandard	**1.25%**	2.08%	1.60%
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**91.37%**	97.04%	100.00%
OAEM	**6.64%**	2.96%	–
Substandard	**1.99%**	–	–
Total	**100.00%**	100.00%	100.00%
Agricultural export finance			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**100.00%**	–	–
Total	**100.00%**	–	–
Total Loans			
Acceptable	**87.34%**	86.28%	85.31%
OAEM	**7.36%**	6.61%	6.87%
Substandard	**5.30%**	7.11%	7.82%
Total	**100.00%**	100.00%	100.00%

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

	December 31		
	2019	2018	2017
Nonaccrual loans:			
Current as to principal and interest	**$ 266**	$ 2,460	$ 2,081
Past due	**570**	777	2,465
Total nonaccrual loans	**836**	3,237	4,546
Total impaired loans	**$ 836**	$ 3,237	$ 4,546

The Association had no loans classified as accruing restructured or accruing loans 90 days or more past due for the years presented.

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

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

	December 31		
	2019	2018	2017
Nonaccrual loans			
Real estate mortgage	**$ 78**	$ 1,816	$ 2,987
Production and intermediate-term	**–**	–	291
Agribusiness	**758**	1,421	1,268
Total nonaccrual loans	**836**	3,237	4,546
Total high risk assets	**$ 836**	$ 3,237	$ 4,546

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Agribusiness	$ –	$ –	$ –	$ 165	$ –
Total	$ –	$ –	$ –	$ 165	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 78	$ 83		$ 819	$ 303
Agribusiness	758	987		956	3
Total	$ 836	$ 1,070		$ 1,775	$ 306
Total impaired loans:					
Real estate mortgage	$ 78	$ 83	$ –	$ 819	$ 303
Agribusiness	758	987	–	1,121	3
Total	$ 836	$ 1,070	$ –	$ 1,940	$ 306

	Recorded Investment at 12/31/18	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Agribusiness	$ 337	$ 342	$ 106	$ 45	$ –
Total	$ 337	$ 342	$ 106	$ 45	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,816	$ 1,992		$ 2,051	$ 38
Production and intermediate-term	–	–		69	30
Agribusiness	1,084	1,108		1,207	–
Total	$ 2,900	$ 3,100		$ 3,327	$ 68
Total impaired loans:					
Real estate mortgage	$ 1,816	$ 1,992	$ –	$ 2,051	$ 38
Production and intermediate-term	–	–	–	69	30
Agribusiness	1,421	1,451	106	1,252	–
Total	$ 3,237	$ 3,443	$ 106	$ 3,372	$ 68

	Recorded Investment at 12/31/17	Unpaid Principal Balance*	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 2,987	$ 2,904	$ 1,659	$ 5
Production and intermediate-term	291	290	353	1
Agribusiness	1,268	1,268	83	–
Total	$ 4,546	$ 4,462	$ 2,095	$ 6

* Unpaid principal balance represents the recorded principal balance of the loan

There were no loans with a related allowance for loan losses at December 31, 2017.

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

	Year Ended December 31		
	2019	2018	2017
Interest income recognized on:			
Nonaccrual loans	**$ 306**	$ 68	$ 6
Interest income recognized on impaired loans	**$ 306**	$ 68	$ 6

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

	Year Ended December 31		
	2019	2018	2017
Interest income which would have been recognized under the original loan terms	**$ 137**	$ 208	$ 215
Less: interest income recognized	**306**	68	6
Interest income (recognized)/not recognized	**$ (169)**	$ 140	$ 209

The following table provides an age analysis of past due loans (including accrued interest).

December 31, 2019	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 Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 220	$ –	$ 220	$ 390,912	$ 391,132	$ –
Production and intermediate-term	5,537	–	5,537	163,925	169,462	–
Agribusiness	45	525	570	115,899	116,469	–
Rural infrastructure	–	–	–	37,170	37,170	–
Agricultural export finance	–	–	–	7,680	7,680	–
Rural residential real estate	–	–	–	154	154	–
Total	$ 5,802	$ 525	$ 6,327	$ 715,740	$ 722,067	$ –

December 31, 2018	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 Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ –	$ –	$ –	$ 385,609	$ 385,609	$ –
Production and intermediate-term	2,778	–	2,778	158,020	160,798	–
Agribusiness	44	733	777	101,625	102,402	–
Rural infrastructure	–	–	–	36,970	36,970	–
Agricultural export finance	–	–	–	4,005	4,005	–
Total	$ 2,822	$ 733	$ 3,555	$ 686,229	$ 689,784	$ –

December 31, 2017	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 Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 173	$ 2,465	$ 2,638	$ 386,403	$ 389,041	$ –
Production and intermediate-term	–	–	–	156,341	156,341	–
Agribusiness	–	–	–	100,357	100,357	–
Rural infrastructure	–	–	–	33,453	33,453	–
Agricultural export finance	–	–	–	3,998	3,998	–
Total	$ 173	$ 2,465	$ 2,638	$ 680,552	$ 683,190	$ –

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.

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 following table presents additional information regarding troubled debt restructurings (whether accrual or nonaccrual) that occurred during the year.

	Year Ended December 31					
	2019		2018		2017	
	Outstanding Recorded Investment					
	Pre-modification	**Post-modification**	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:						
Agribusiness	**$ –**	**$ –**	$ 451	$ 451	$ –	$ –
Total	**$ –**	**$ –**	$ 451	$ 451	$ –	$ –

Note: Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable 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.

There were no TDRs that occurred within the previous 12 months of that year and for which there was a payment default during the period for any of the periods presented. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2019, 2018 and 2017.

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 at December 31.

	Loans Modified as TDRs			TDRs in Nonaccrual Status*		
	2019	2018	2017	**2019**	2018	2017
Agribusiness	**$ 267**	$ 451	–	**$ 267**	$ 451	$ –
Total	**$ 267**	$ 451	$ –	**$ 267**	$ 451	$ –

*Represents the portion of loans modified as TDRs that are in nonaccrual status.

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

	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2019
Real estate mortgage	$ 1,132	$ –	$ –	$ (652)	$ 480
Production and intermediate-term	750	1	6	41	796
Agribusiness	683	130	11	86	650
Rural infrastructure	208	–	–	11	219
Agricultural export finance	17	–	–	16	33
Total	$ 2,790	$ 131	$ 17	$ (498)	$ 2,178

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2018
Real estate mortgage	$ 1,078	$ –	$ –	$ 54	$ 1,132
Production and intermediate-term	956	1	6	(211)	750
Agribusiness	571	–	–	112	683
Rural infrastructure	175	–	22	11	208
Agricultural export finance	16	–	–	1	17
Total	$ 2,796	$ 1	$ 28	$ (33)	$ 2,790

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$ 988	$ –	$ –	$ 90	$ 1,078
Production and intermediate-term	709	1	4	244	956
Agribusiness	597	–	–	(26)	571
Rural infrastructure	196	–	–	(21)	175
Agricultural export finance	18	–	–	(2)	16
Total	$ 2,508	$ 1	$ 4	$ 285	$ 2,796

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on our 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:

	For the Year Ended December 31		
	2019	2018	2017
Balance at beginning of period	**$ 337**	$ 426	$ 387
Provision for/(Reversal of) reserve for unfunded commitments	**14**	(89)	39
Total	**$ 351**	$ 337	$ 426

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 480	$ 77	$ 391,055
Production and intermediate-term	–	796	–	169,462
Agribusiness	–	650	758	115,711
Rural infrastructure	–	219	–	37,170
Agricultural export finance	–	33	–	7,680
Rural residential real estate	–	–	–	154
Total	$ –	$ 2,178	$ 835	$ 721,232

	Allowance for Loan Losses Ending Balance at December 31, 2018		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 1,132	$ 1,816	$ 383,793
Production and intermediate-term	–	750	–	160,798
Agribusiness	106	577	1,421	100,981
Rural infrastructure	–	208	–	36,970
Agricultural export finance	–	17	–	4,005
Total	$ 106	$ 2,684	$ 3,237	$ 686,547

	Allowance for Loan Losses Ending Balance at December 31, 2017		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 1,078	$ 2,987	$ 386,054
Production and intermediate-term	–	956	291	156,050
Agribusiness	–	571	1,268	99,089
Rural infrastructure	–	175	–	33,453
Agricultural export finance	–	16	–	3,998
Total	$ –	$ 2,796	$ 4,546	$ 678,644

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2019, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock on participations for agricultural cooperatives and communications customers and 80 percent cash and 20 percent Class A stock on participations for electric distribution and generation cooperatives and rural water customers. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned 0.60 percent of the outstanding common stock of CoBank at December 31, 2019, compared with 0.63 percent at December 31, 2018 and 0.67 percent at December 31, 2017.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2019	2018	2017
Land	**$ 290**	$ 290	$ 290
Buildings and leasehold improvements	**2,402**	2,402	2,390
Furniture, equipment and automobiles	**966**	918	1,311
	3,658	3,610	3,991
Less: accumulated depreciation	**2,748**	2,643	2,968
Total	**$ 910**	$ 967	$ 1,023

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). According to the agreement, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the line of credit. The GFA is subject to periodic renewals in the normal course of business. The GFA will mature on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2019. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

	December 31		
	2019	2018	2017
Line of credit	**$ 610,000**	$ 610,000	$ 610,000
Outstanding principal and accrued interest balance	**$ 570,151**	$ 547,407	$ 547,935
Average outstanding principal balance under the line of credit	**$ 538,822**	$ 536,890	$ 535,546
Weighted average interest rate	**2.75%**	2.61%	2.20%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with the Bank, and our advanced conditional payments, the Association has no other uninsured or insured debt. See Note 2 for additional information. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's notes payable was within the specified limitations.

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

	2019	2018	2017
Average committed funds	**$ 152,506**	$143,910	$ 135,410
Average rates	**2.38%**	2.14%	1.60%

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Protected Borrower Stock

Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988.

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock. Our bylaws generally permit stock to be retired at the discretion of the Board of Directors and in compliance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

C. Regulatory Capitalization Requirements and Restrictions

The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, new regulatory capital surplus requirements for Banks and Associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past.

The following sets forth the regulatory capital ratio requirements and ratios at December 31.

Ratio	**Primary Components of Numerator**	**Denominator**	**2019**	**2018**	**2017**	**Minimum with Buffer***	**Minimum Requirement**
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	19.14%	18.47%	17.37%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, noncumulative perpetual preferred stock	Risk-adjusted assets	19.14%	18.47%	17.37%	8.5%	6.0%
Total Capital	Tier 1 Capital, allowance for loan losses[2], common cooperative equities[3], and term preferred stock and subordinated debt[4]	Risk-adjusted assets	19.45%	18.87%	17.81%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	20.85%	20.09%	18.91%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	21.32%	20.56%	19.29%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	19.19%	18.53%	17.44%	–	7.0%

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.
** Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.
1 Equities outstanding 7 or more years
2 Capped at 1.25% of risk-adjusted assets
3 Outstanding 5 or more years, but less than 7 years
4 Outstanding 5 or more years

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The Board of Directors has established, adopted, and maintains a formal Capital Adequacy Plan for the Association. The Capital Adequacy Plan establishes minimum capital standards to protect against credit and other general risks which are inherent in the Association's operations. These minimum standards are established above regulatory minimums which would allow the Association to react to a stressed capital environment before regulatory minimums are reached. The Association retires protected stock as established by Association Bylaws provided that the Association shall not retire stock if the action would result in failure of the Association to meet minimum capital requirements. The Association may also be subject to capital calls by CoBank to meet capital requirements for its joint and several liability obligations under the Farm Credit Act and regulations. Refer to Management's Discussion and Analysis (MDA) for further information.

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2019. Unless otherwise indicated, all classes of stock have a par value of $5.00. All classes of stock are transferable to any holder to which such respective classes of stock may be issued. Refer to the MDA Capital Resources discussion for further information.

Class A — Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Represents Association retained earnings, dividends or patronage distributions allocated on or after October 6, 1988. This stock may also represent Class B or Class C Common Stock of a borrower which automatically converts to Class A two years after repayment of the loan in full. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

Class B — Common Stock (Voting, at-risk, 171,694 shares outstanding) - Issued on or after October 6, 1988, for farm and ranch loans. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations. If the Association is unable to retire Class B Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class C — Common Stock (Nonvoting, at-risk, 1,600 shares outstanding) - Issued on or after October 6, 1988, for farm-related and rural home loans and to other persons or organizations who are eligible to borrow but are not eligible to hold voting stock. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations. If the Association is unable to retire Class C Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class D — Investor Stock (Nonvoting, at-risk, no shares outstanding, par value of 1,000 dollars) – Shall be issued only to CoBank. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

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

Class F — Common Stock (Voting, protected, no shares outstanding) - Issued prior to October 6, 1988, to borrowers entitled to vote. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. If so, the stock must be converted to Class G Common Stock within two years after loan repayment in full. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

Class G Common Stock (Nonvoting, protected, no shares outstanding) - Formerly participation certificates, this represents stock issued prior to October 6, 1988, to rural residence borrowers and others not eligible to vote. This stock may also represent Class F Common Stock of a borrower which automatically converts to Class G Common Stock two years after repayment of the loan in full. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. Retirement is at the sole discretion of the Board of Directors provided that the Association will continue to meet minimum capital adequacy requirements as established under Regulations.

If at any time the Association does not meet the minimum capital adequacy standards established by FCA, all stock required to be purchased as a condition of obtaining a loan shall be purchased from the Association and may not be purchased from persons other than the Association.

The changes in the number of shares of protected and capital stock outstanding during 2019 are summarized in the following table.

Shares in whole numbers	Capital
Balance outstanding at January 1, 2019	172,373
Issuances	9,410
Retirements	(8,489)
Balance outstanding at December 31, 2019	173,294

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock, System institutions and non-System institutions with or for whom the Association conducts certain business transactions out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $4,500 in 2019, $3,750 in 2018 and $3,500 in 2017. The Association declared a patronage distribution of $5,500 in 2019 to be paid in 2020.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, pro rata to all classes of preferred stock; second, pro rata to all classes of common stock; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance. Any remaining assets of the Association after such distributions shall be distributed to present and former Patrons on a patronage basis, to the extent practicable.

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2019, the Association allocated 38.37 percent of its patronage-sourced net income to its patrons.

F. Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income/loss in its Consolidated Statement of Changes in Shareholders' Equity. As more fully described in Note 2, accumulated other comprehensive income/loss results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits. The Association has accumulated other comprehensive loss of $277 in 2019, $285 in 2018 and $390 in 2017. There were no other items affecting comprehensive income or loss.

The following table presents activity in the accumulated other comprehensive income/(loss), net of tax by component.

	2019	2018	2017
Pension benefit plan:			
Beginning balance	**$ (285)**	$ (390)	$ (50)
Other comprehensive income/(loss) before reclassifications	**(47)**	23	(345)
Amounts reclassified from accumulated other comprehensive income/(loss)	**55**	82	5
Net current period other comprehensive income/(loss)	**8**	105	(340)
Year-end balance	**$ (277)**	$ (285)	$ (390)

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

	Amount Reclassified from Accumulated Other Comprehensive Income/(Loss)			Location of Gain/Loss Recognized in Statement of Income
	December 31			
	2019	2018	2017	
Pension benefit plan:				
Net actuarial loss	**$ 55**	$ 82	$ 5	Salaries and employee benefits
Total reclassifications	**$ 55**	$ 82	$ 5	

<u>NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS</u>

Patronage income recognized from Farm Credit institutions to the Association follows.

	2019	2018	2017
CoBank	**$ 2,524**	$ 3,013	$ 2,561
Farm Credit Foundations	**7**	6	7
Total	**$ 2,531**	$ 3,019	$ 2,568

Patronage distributed from CoBank was in cash and stock. The amount earned in 2019 was accrued and will be paid by CoBank in March 2020. The amount earned and accrued in 2018 and 2017 was paid by CoBank in March of the following year. In 2018, we received a one-time cash patronage distribution from CoBank of $351 relating to tax reform changes.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2020. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

<u>NOTE 9 – INCOME TAXES</u>

The provision for income taxes follows.

	Year Ended December 31		
	2019	2018	2017
Current:			
Federal	**$ –**	$ 14	$ 5
State	**–**	2	–
Provision for income taxes	**$ –**	$ 16	$ 5

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

	Year Ended December 31		
	2019	2018	2017
Federal tax at statutory rate	**$ 3,011**	$ 3,037	$ 4,239
State tax, net	**(1)**	1	–
Effect of non-taxable entity	**(2,994)**	(2,785)	(3,999)
Change to valuation allowance	**(65)**	35	(6)
Patronage refunds	**(41)**	(272)	(345)
Change in tax rates	**–**	–	122
Provision to return difference	**90**	–	–
Other	**–**	–	(6)
Provision for income taxes	**$ –**	$ 16	$ 5

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	**$ 217**	$ 210	$ 291
Interest on nonaccrual loans	**28**	16	6
Depreciation	**66**	63	58
Gross deferred tax assets	**311**	289	355
Deferred tax asset valuation allowance	**(207)**	(284)	(243)
Deferred income tax liabilities:			
Bank patronage allocation	**(99)**	–	(106)
Investment in partnership	**(5)**	(5)	(6)
Gross deferred tax liability	**(104)**	(5)	(112)
Net deferred tax asset	**$ –**	$ –	$ –

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

The Association recorded a valuation allowance of $207 in 2019, $284 in 2018 and $243 in 2017. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

In 2017, tax expense of $122 resulted from the enactment of federal tax legislation in late December 2017 which, among other things, lowered the federal corporate tax rate from 35 percent to 21 percent beginning in 2018. In accordance with GAAP, the change to the lower corporate tax rate led to a revaluation of the Association's deferred tax assets and deferred tax liabilities in the period of enactment (2017).

The Association has no uncertain tax positions as of December 31, 2019, 2018 or 2017. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth Retirement Plan, a multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

The defined benefit pension plan reflects an unfunded liability totaling $81.2 million at December 31, 2019. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $333.7 million at December 31, 2019, $274.4 million at December 31, 2018 and $292.6 million at December 31, 2017. The fair value of the plan assets was $252.5 million at December 31, 2019, $204.9 million at December 31, 2018 and $208.0 million at December 31, 2017. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated ownership percentage of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $6.8 million in 2019, $10.8 million in 2018 and $12.7 million in 2017. The Association's allocated share of plan expenses included in salaries and employee benefits was $427 in 2019, $671 in 2018, and $704 in 2017. Participating employers contributed $20.0 million in 2019, $20.0 million in 2018 and $20.0 million in 2017 to the plan. The Association's allocated share of these pension contributions was $1.3 million in 2019, $1.2 million in 2018, and $1.1 million in 2017. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2020 is $30.0 million. The Association's allocated share of these pension contributions is expected to be $1.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were income of $2 in 2019, $1 in 2018 and $2 in 2017. The Association made cash contributions of $10 in 2019, $10 in 2018 and $10 in 2017.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $79 in 2019, $101 in 2018 and $22 in 2017.

The funding status and the amounts recognized in the Consolidated Statement of Condition for the Association's Pension Restoration Plan follows:

	Nonqualified Pension Benefits		
	2019	2018	2017
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 635**	$ 639	$ 277
Service cost	**–**	–	9
Interest cost	**24**	19	8
Actuarial loss/(gain)	**47**	(23)	345
Benefit obligation at the end of the period	**$ 706**	$ 635	$ 639
Fair value of plan assets at the end of the period	**–**	–	–
Funded status of the plan	**$ (706)**	$ (635)	$ (639)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 706**	$ 635	$ 639
Net amount recognized	**$ 706**	$ 635	$ 639

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plan at December 31.

	2019	2018	2017
Net actuarial loss	**$ (277)**	$ (285)	$ (390)
Total amount recognized in AOCI/(loss)	**$ (277)**	$ (285)	$ (390)

An estimated net actuarial loss of $51 for the Pension Restoration Plan will be amortized into income over the next year.

The projected and accumulated benefit obligation for the Pension Restoration Plan at December 31 was:

	2019	2018	2017
Projected benefit obligation	**$ 706**	$ 635	$ 639
Accumulated benefit obligation	**$ 706**	$ 635	$ 639

The net periodic pension expense for the Pension Restoration Plan included in the Consolidated Statement of Comprehensive Income is comprised of the following at December 31.

	Pension Benefits		
	2019	2018	2017
Components of net periodic benefit cost			
Service cost	**$ –**	$ –	$ 9
Interest cost	**24**	19	8
Net amortization and deferral	**55**	82	5
Net periodic benefit cost	**$ 79**	$ 101	$ 22

Changes in benefit obligation recognized in accumulated other comprehensive income/(loss) are included in the following table.

	2019	2018	2017
Current year net actuarial gain/(loss)	**$ (47)**	$ 23	$ (345)
Amortization of net actuarial loss	**55**	82	5
Total recognized in other comprehensive income/(loss)	**$ 8**	$ 105	$ (340)

Weighted average assumptions used to determine benefit obligation at December 31:

	2019	2018	2017
Discount rate	**2.59%**	4.06%	3.35%
Rate of compensation increase	**5.40%**	5.00%	5.00%

Beginning in 2019, the rate of compensation increase for the pension benefits was modified to an age-based scale beginning at 5.50%, decreasing ultimately to 3.50%.

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	2019	2018	2017
Discount rate			
Projected benefit obligation	**4.06%**	3.35%	3.51%
Service cost	**4.11%**	3.39%	3.58%
Interest cost	**3.93%**	3.13%	3.04%
Rate of compensation increase	**5.00%**	5.00%	5.00%

The Association expects no contribution to the Pension Restoration Plan in 2020.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

	Pension Restoration Benefits
2020	$ –
2021	$ –
2022	$ –
2023	$ 198
2024	$ 198
2025 – 2029	$ 396

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were $297 in 2019, $268 in 2018 and $258 in 2017.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

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

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

	2019	2018	2017
Beginning balance	**$ 28,465**	$ 28,352	$ 24,984
New loans	**57,486**	48,530	42,239
Repayments	**(53,935)**	(48,679)	(43,244)
Reclassifications*	**(1,414)**	262	4,373
Ending balance	**$ 30,602**	$ 28,465	$ 28,352

* Represents loans that were once considered related party, but are no longer considered related party, or loans that were not related party that subsequently became related party loans.

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2019 involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $1.6 million in 2019, $1.4 million in 2018 and $1.2 million in 2017 to AgVantis for technology services. One Association officer, elected by AgVantis' owners, serves as an AgVantis' director. The Association paid $105 in 2019, $101 in 2018, and $101 in 2017 to Foundations for human resource services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2019, $201.6 million of commitments to extend credit were outstanding.

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

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, $2.4 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2020 to 2025. The maximum potential amount of future payments the Association is required to make under the guarantees is $2.4 million. The Association primarily participates in two types of standby letters of credits to meet the needs of its borrowers. Letters of credit issued to direct borrowers typically facilitate payment guarantees to third parties such as the payment of cash rent to a landlord. If the borrower failed to make such payment, the Association could be obligated to advance on the letter of credit. Similarly, the Association participates in letters of credit within our purchased loan portfolio. These arrangements typically guarantee the availability of credit to large corporate customers with strong credit ratings. The Association individually analyzes each standby letter of credit using relevant credit underwriting standards and had no outstanding loan volume issued against standby letters of credit as of the date of the statement of financial position.

NOTE 14 – FAIR VALUE MEASUREMENTS

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

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			**Total Fair Value**
	Level 1	**Level 2**	**Level 3**	
Assets held in nonqualified benefits trusts				
2019	**$ 736**	**$ –**	**$ –**	**$ 736**
2018	$ 903	$ –	$ –	$ 903
2017	$ 955	$ –	$ –	$ 955

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

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized as follows:

	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Loan Assets				
2019	**$ –**	**$ –**	**$ –**	**$ –**
2018	$ –	$ –	$ 232	$ 232
2017	$ –	$ –	$ –	$ –

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

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. 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

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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process only uses independent appraisals and other market-based information.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2019, 2018, and 2017, follow.

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 4,716**	**$ 5,076**	**$ 4,840**	**$ 4,890**	**$ 19,522**
Provision for credit losses/(Credit loss reversal)	**103**	**(613)**	**(66)**	**92**	**(484)**
Noninterest expense, net	**1,221**	**1,405**	**1,346**	**1,695**	**5,667**
Net income	**$ 3,392**	**$ 4,284**	**$ 3,560**	**$ 3,103**	**$ 14,339**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,464	$ 4,621	$ 4,716	$ 4,734	$ 18,535
Provision for credit losses/(Credit loss reversal)	17	(172)	(30)	63	(122)
Noninterest expense, net	841	1,238	822	1,310	4,211
Net income	$ 3,606	$ 3,555	$ 3,924	$ 3,361	$ 14,446

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,633	$ 4,388	$ 4,568	$ 4,559	$ 18,148
Provision for credit losses/(Credit loss reversal)	236	191	(22)	(81)	324
Noninterest expense, net	1,270	1,388	1,420	1,282	5,360
Net income	$ 3,127	$ 2,809	$ 3,170	$ 3,358	$ 12,464

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 9, 2020 which is the date the financial statements were issued, and no material subsequent events were identified.

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

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

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

DESCRIPTION OF PROPERTY

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

Location	Description	Form of Ownership
202 Poplar Street Sterling, Colorado 80751	Office Building (Administrative Office)	Owned
229 South Third Street Sterling, Colorado 80751	Office Building	Owned
225 East Railroad Avenue Ft. Morgan, Colorado 80701	Office Building	Owned
700 West Eighth Avenue Yuma, Colorado 80759	Office Building	Owned
143 South Campbell, Suite 100 Holyoke, Colorado 80734	Office Building	Leased*
210 North 2nd Street Sterling, Colorado 80751	Vacant	Owned

** Automatically renewable month-to-month lease, currently leased for $500.00 per month.*

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

DESCRIPTION OF LIABILITIES

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

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

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

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2019, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Consolidated Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following represents certain information regarding the directors and senior officers of the Association.

DIRECTORS

Wayne A. Midcap	Chairman - Mr. Midcap represents the Northwest Region – Seat 1, serving a three-year term which expires in 2020. Business Experience: Farming and selling certified seed wheat. Mr. Midcap is a shareholder in four family farm operations, Midcap Seed & Grain, LLC; Midcap Farms; Longview Farms, LLC; and Rock Creek Farms, Inc. which are diversified dryland farming operations that raise certified seed wheat and millet. He serves as a Director and Chairman of the Colorado Seed Growers Association. He has been a member of the Farm Credit System for 31 years. Mr. Midcap serves on the Compensation Committee and represents the Association as a member of the District Farm Credit Council Board.
Bruce W. Kokes	Vice Chairman - Mr. Kokes represents the Northeast Region – Seat 2, serving a three-year term which expires in 2021. Business Experience: Farming and ranching. Mr. Kokes operates Bruce Kokes Farm and is a partner in the MMB Partnership. He raises wheat, millet, and hay and runs a cow/calf operation. He previously served on the Board of the Crook Fire Protection District. Mr. Kokes is a member of the Northeastern Junior College Young Farmers. Mr. Kokes has been a member of the Farm Credit System for 23 years.
Michael J. Brownell	Outside Appointed Director – Mr. Brownell is from Fleming, Colorado, serving a three-year term which expires in 2022. Business Experience: Mr. Brownell has farmed since 1986, raising dryland wheat, millet, and sunflowers. In 2014, Mr. Brownell retired as a Professor at Northeastern Junior College (NJC) after teaching Agriculture Business Management and agronomy for over 22 years. Mr. Brownell received numerous awards including NJC Faculty Member of the Year in 1998 and in 2008. Mr. Brownell serves as Vice Chair of the FSA County Committee and is a member of the Fleming Rural Fire District Board. He also serves as a member of the NJC Ag Business Advisory Committee and is on the Logan County Farm Bureau Board where he holds the position of Secretary. Mr. Brownell and his wife, Laural, own the Sterling Trophy Shop. In addition, Mr. Brownell serves as Trustee for the Leslie L. Smith Grandchildren and Smith Family Trusts and is a partner in N.C.S. Management Systems. Mr. Brownell serves on the Compensation Committee and Policy Review Committee.
Ryan W. Godsey	Director – Mr. Godsey was appointed in October 2015 to fill the vacant position in the South Region – Seat 2, with his term expiring in 2021. Business Experience: Farming and ranching. Mr. Godsey operates R & S Godsey Farms, Inc. with his wife, Susan, and raises corn, beans, wheat and cattle in a family operation with his parents. Mr. Godsey serves on the Board of Directors of CHS/M&M Cooperative and attends New Life Christian Center. His wife, Susan, owns and operates HC Insurance in Wray, CO. He has been a member of the Farm Credit System since 2006. Mr. Godsey serves on the Compensation Committee and is Chairman of the Policy Review Committee.
Lyndsey D. Graves	Outside Appointed Director and Financial Expert – Mrs. Graves is originally from Wray, CO and recently relocated to Kearney, NE– serving a 3-year term expiring in 2021, having served since 2012. Business experience: Corporate accounting, banking, and auditing. Mrs. Graves is a CPA providing tax and consulting services to clients in Northeast Colorado. In addition to owning her own firms, Just Numbers, LLC and Graves Consulting, LLC, she and her husband operated 926 Farms, LLC, a dryland farming operation. Mrs. Graves and her husband also own Decked Out Truck Parts, LLC, a retail truck parts business. Mrs. Graves is also a certified Annie's Project Trainer.

Mrs. Graves graduated Summa Cum Laude from UNC/Monfort College of Business in Greeley and received her Master's in Taxation from DU/Sturm College of Law. She serves on the Compensation Committee and is Chair of the Audit Committee.

Allen Hutt

Director – Mr. Hutt represents the Northwest Region – Seat 3, serving a three-year term which expires in 2022. Business Experience: Mr. Hutt is a fourth generation diversified farmer producing irrigated corn, wheat, hay, and millet. He also has a custom hay business and cow/calf operation. Mr. Hutt serves as a Leader for Lucky Clover 4-H Club and raises show pigs. He and his wife, Melinda, own Country Creations, an embroidery and screen printing business. Mr. Hutt has been a member of Premier Farm Credit for 15 years. He serves on the Compensation Committee and Policy Review Committee.

Randall W. Kirkwood

Director – Mr. Kirkwood represents the Northeast Region, Seat 1, serving a three-year term which expires in 2020. Business Experience: Farming and ranching. Mr. Kirkwood raises dryland wheat and operates a cow/calf operation, with help from his wife, Jolene. He currently serves as President of the Fleming School Board and is the Fleming Jr. High and High School Girls' Basketball Coach. Mr. Kirkwood has been a member of Premier Farm Credit for 9 years. He serves on the Compensation Committee and Audit Committee.

Rebecca K.W. Lenz

Director – Mrs. Lenz represents the South Region – Seat 3, serving a three-year term which expires in 2022. Business Experience: Farming and controller for several family companies. Mrs. Lenz has been involved in farming with her husband, George, and their family partnerships, Six by Two Land Company, LLLP; Six by Two Livestock, LLC; Eagle Acres, LLC; and Wildcat Ag, LLC. She is also involved in Lenz Farms GP; Lenz Family Farms, LLC; LFE, LLC; Sand Creek Charolais, LLC; Five Aces, LLC; Royal Flush Farms, LLC; ProGrain Farms; Ag Legacy, LLC; Full House, LLLP; Wy Hold'em, LLC; Barkwell, LLC; KmN Enterprises, LLC; and Alvin Acres, LLC. They produce corn, potatoes, dry edible beans and wheat as well as operate a cow/calf operation, background calves and raise a registered Charolais herd. Mrs. Lenz serves on the Wray Community District Hospital Board of Directors, is a Leader for Wauneta 4-H Club in Yuma County, member of St. Andrew's Catholic Church and Rocky Mountain Farmers Union. She is also a certified Annie's Project trainer. Mrs. Lenz has been a member of the Farm Credit System for 31 years. She serves on the Audit Committee and is Chair of the Compensation Committee.

Mark A. Oestman

Director – Mr. Oestman represents the South Region – Seat 1, serving a three-year term which expires in 2020. Business Experience: Farming and ranching. Mr. Oestman farms and ranches with his father, Terry Oestman, and is the Managing Partner of Oestman Farms, LLC which operates a diversified irrigated farm with a crop rotation of corn, soybeans, white wheat, and canola. His other affiliated entities include: Boo Farms, LLC; Lazy J-3 Limited; James P. Brophy Homeplace, LLLP. Mr. Oestman enjoys carrying on the family tradition of growing watermelons. He currently serves on the Kitzmiller Grazing Association Board and is the Financial Secretary for the Yuma Knights of Columbus. Mr. Oestman is a member of St. John the Evangelist Catholic Church and serves on the Pastoral Council. He previously served as President of the Colorado Corn Administrative Committee and Yuma Conservation District. Mr. Oestman has been a member of Premier Farm Credit for 16 years. He serves as Vice Chair of the Compensation Committee and is Secretary of the Policy Review Committee.

Lisa E. Shinn

Director – Mrs. Shinn represents the Northwest Region – Seat 2, serving a three-year term which expires in 2021. Business Experience: Mrs. Shinn is a partner in CTL Farm & Ranch, LLC, a family farming operation with her sisters that is leased to a local farmer. She is also involved in Eckley Land & Oil, LLC and Lyle & Viola Myers Trust. Mrs. Shinn is a retired Professor at Northeastern Junior College (NJC) where she taught Agriculture Business Management for 25 years to local farmers and ranchers. In addition, Mrs. Shinn provides private accounting consulting for a few producers in northeast Colorado. She serves as a member of the NJC Ag Business Management Advisory Committee and the Buffalo School Foundation Board. She previously served as a Rural Rascals 4-H Club Leader and Co-Sponsor for NJC Aggies Club. She has been a member of the Farm Credit System for 28 years. She serves on the Compensation Committee and Audit Committee.

Leo Stieb, Jr.

Director – Mr. Stieb represents the Northeast Region – Seat 3, serving a three-year term which expires in 2022. Business Experience: Farming and ranching. Mr. Stieb is a partner in Stieb Bros., Inc., Stieb Land Company, LLP, and 4-S Land Co., LLP, producing corn, alfalfa, soybeans, sorghum, and wheat, as well as a cow/calf operation and a feedlot. He has been a member of the Farm Credit System for 34 years. Mr. Stieb currently serves as President of the Bravo Irrigation District, Vice President of the Iliff Platte Valley Irrigation District, and is a member of the Chimney Canyon Grazing Association and Northeast Colorado Cattlemen's Association. He serves on the Compensation Committee and Policy Review Committee.

Richard P. Starkebaum — Director – Mr. Starkebaum represented the Northeast Region – Seat 3, serving a three year term which expired in 2019.

SENIOR OFFICERS

Michael Grauberger — President - Chief Executive Officer
Mr. Grauberger assumed the President and Chief Executive Officer role on January 1, 2018. Mr. Grauberger has been a Farm Credit System employee since June 9, 1986. During his tenure, Mr. Grauberger has served in various capacities and was previously the Chief Financial Officer since March 2014. All of his years of service have been with associations that formed Premier Farm Credit, ACA, except for three years in which he was employed by the FLBA of Colorado Springs.

Jeffrey L. Schumacher — Chief Financial Officer
Mr. Schumacher was appointed Chief Financial Officer on January 1, 2018. He has been a Farm Credit employee since February 19, 1992. Mr. Schumacher was previously Vice President – Credit. All of his years of service have been with associations that formed Premier Farm Credit, ACA. During his tenure, Mr. Schumacher has served in various capacities.

Douglas D. Keil — Chief Credit Officer
Mr. Keil has served as Chief Credit Officer since May 2000. Mr. Keil has been a Farm Credit System employee since August 19, 1986. All of his years of service have been with associations that formed Premier Farm Credit, ACA, except for two years in which he was employed by the Eighth Farm Credit District and Farm Credit Services of the Mountain Plains, ACA. During his tenure, Mr. Keil has served in various capacities.

Phyllis P. Luft — Vice President - Administration
Mrs. Luft was appointed Vice President - Administration in April 2000. Mrs. Luft has been a Farm Credit System employee since October 10, 1983. All of her years of service have been with associations that formed Premier Farm Credit, ACA, except for three and a half years in which she was employed by Farm Credit Services of the Mountain Plains, ACA. During her tenure, Mrs. Luft has served in various capacities.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $550 per day. The chairman of the Board of Directors was compensated for services on a per diem basis at the rate of $650 per day. The chair of the Audit Committee was compensated for Audit Committee services on a per diem basis at the rate of $650 per day. During 2019, mileage was reimbursed at a rate of $0.58 per mile while on official business. The Compensation Committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director is provided as follows.

Name	Number of Days Served at		Compensation for			Total Compensation Paid During 2019
	Board Meetings	Other Official Activities	Board Meetings	Policy Review	Audit	
Wayne A. Midcap	10.0	7.0	$ 11,025	$ –	$ –	$ 11,025
Bruce W. Kokes	8.0	6.5	7,975	–	–	7,975
Michael J. Brownell	9.0	8.0	8,250	1,100	–	9,350
Ryan W. Godsey	10.0	7.0	8,250	1,100	–	9,350
Lyndsey D. Graves	8.0	14.0	9,825	–	2,700	12,525
Allen Hutt	10.0	8.5	9,075	1,100	–	10,175
Randall W. Kirkwood	10.0	8.5	9,075	–	1,100	10,175
Rebecca K.W. Lenz	9.0	14.5	10,725	–	2,200	12,925
Mark A. Oestman	9.0	12.0	10,450	1,100	–	11,550
Lisa E. Shinn	9.0	10.5	8,525	–	2,200	10,725
Leo Stieb, Jr.	7.0	9.0	7,700	1,100	–	8,800
Richard P. Starkebaum	3.0	1.0	1,650	–	550	2,200
Total Compensation			$ 102,525	$ 5,500	$ 8,750	$ 116,775

Directors are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $90,980 in 2019, $84,097 in 2018 and $71,434 in 2017. There was no non-cash compensation paid to directors in 2019.

Information on chief executive officer (CEO) and senior officer compensation follows. The CEO compensation is not included with the senior officer compensation.

President and CEO[2]	Year	Annual				Total
		Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	
Michael Grauberger	2019	$ 232,790	$ 70,000	$ 684,844	$ 3,168	$ 990,802
Michael Grauberger	2018	$ 206,597	$ 55,000	$ 161,083	$ 2,021	$ 424,701
Richard Sanger	2017	$ 265,261	$ 65,000	($ 61,025)	$ 31,471	$ 300,707

Aggregate Number of Officers/Highly Compensated Individuals (excluding CEO)[2]	Year	Annual				Total
		Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	
7	2019	$ 1,005,861	$ 213,891	$ 1,296,091	$ 10,385	$ 2,526,228
7	2018	$ 970,962	$ 129,880	$ 167,911	$ 7,927	$ 1,276,680
7	2017	$ 978,156	$ 141,225	$ 1,121,290	$ 8,718	$ 2,249,389

1. Disclosure of the total compensation paid during 2019 to any designated senior officer or highly compensated employee is available to our shareholders upon request. The Salary and Incentive Compensation columns of the Summary Compensation Table include all amounts earned during 2019 regardless of whether a portion of such compensation has been deferred by the CEO or other Senior Officers' elections pursuant to the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan) and the Farm Credit Foundations Nonqualified Deferred Compensation Plan (NQDC Plan).
2. The senior officers and highly compensated employees included above are those officers defined by FCA regulations Section 619.9310 and Section 620.6.
3. Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in February of the subsequent year. The annual incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year.
4. The Change in Pension Value increased in 2019 primarily due to the increase in years of service and age and changes in actuarial assumptions such as the discount rate. The change in value of the pension benefits is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year, disclosed in Note 10 of the Financial Statements. Also represents company contributions to retirement plans for all employees and any changes in value of pension benefits. In 2019, the Association's employer matching contribution to the CEO's account in the 401(k) Plan was $11,359 and there was no contribution to the CEO's account in the NQDC Plan. Also included is an increase in Pension value of $673,485 for the CEO. For 2019, the Association's employer matching and non-elective contributions for the other Senior Officers' accounts in the 401(k) Plan were $66,246 and there were no contributions to their accounts in the NQDC Plan. Also included is an increase in the pension value of $1,229,845 for the other Senior Officers. No tax reimbursements are made to senior officers/highly compensated individuals.

5. Includes the payout of unused annual leave.

COMPENSATION PHILOSOPHY

The Association endeavors to provide compensation packages that are competitive in the marketplace to attract and retain a quality, tenured staff. In addition to base salary, all staff, including the CEO and senior officers, can earn additional compensation under annual incentive and bonus plans which are tied to the overall business performance of the Association. The plans are based on a fiscal year and are designed to motivate employees to exceed financial, marketing and credit quality performance targets approved by the Board of Directors. These targets typically include return on assets, cost per hundred, credit quality, credit administration, growth in loan volume and new loan volume booked. The program links pay to performance with appropriate controls in place to ensure sound credit quality and administration is maintained, while focusing on the long-term financial goals of the Association. The plans are short-term in nature and do not create a long-term financial obligation for the Association and they can be amended annually. The plans are reviewed each year by the Compensation Committee and are approved by the Board of Directors.

The Compensation Committee annually reviews market information related to the administration of compensation at all levels of the Association, including the CEO and senior officers. The information consists of surveys for market-based merit increases, peer comparisons, salary levels and incentive plans. The Compensation Committee also has access to a compensation consultant.

Expense Reimbursement – All employees are reimbursed for travel and subsistence expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Retirement Plan Overview – The CEO and certain Senior Officers participate in the Ninth Farm Credit District Pension Plan (Pension Plan) which is a qualified defined benefit plan and the Ninth District Employers Pension Restoration Plan (Pension Restoration Plan), which is a nonqualified retirement plan. Additionally, substantially all employees participate in the 401 (k) Plan, which has an employee matching contribution. Certain eligible employees participate in the Farm Credit Foundations Nonqualified Deferred Compensation Plan, which allows individuals to defer compensation and which restores the benefits limited in the 401 (k) Plan by restrictions in the Internal Revenue Code.

Information on pension benefits attributable to the CEO, senior officers and other highly compensated individuals as of December 31, 2019 follows.

President and CEO[1]	Plan	Years of Credited Service	Present Value of Accumulated Benefits[2]	Payments Made During the Reporting Period[3]
Michael Grauberger	Pension Plan	35.17	$ 2,143,072	$ –

Aggregate Number of Senior Officers/ Highly Compensated Individuals[1]	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits[2]	Payments Made During the Reporting Period[3]
4	Pension Plan	32.38	$ 5,303,609	$ –

1 The senior officers and the highly compensated employees included in the pension benefits disclosure are those defined by FCA regulations Section 619.9310 and Section 620.6.
2 For the Pension or Retirement Plan, this represents the total for the aggregate senior officer and highly compensated employee group.
3 Represents post-retirement benefit payments made during the last fiscal year.

Pension Plan – In general, the Pension Plan is a qualified plan and provides participants with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which the High 60 exceeds covered compensation multiplied by years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a 50% joint-and-survivor annuity, such as a lump sum distribution. The pension valuation was determined using a blended approach assuming half of the benefits would be paid as a lump sum and half as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

Transactions with Senior Officers and Directors

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

Involvement of Senior Officers and Directors in Certain Legal Proceedings

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

Borrower Privacy Statement

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

Financial Expert

In October 2012, the Board appointed Lyndsey D. Graves, a CPA, to fill the role of financial expert on the Board. Mrs. Graves is an owner of an accounting firm and has experience in corporate auditing and banking.

Relationship with CoBank, ACB (CoBank)

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

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

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

Relationship with Independent Auditors

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2020, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

CoBank Annual and Quarterly Reports to Shareholders

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2019 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 202 Poplar Street, Sterling, Colorado 80751, or may be contacted by calling (970) 522-5295. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.