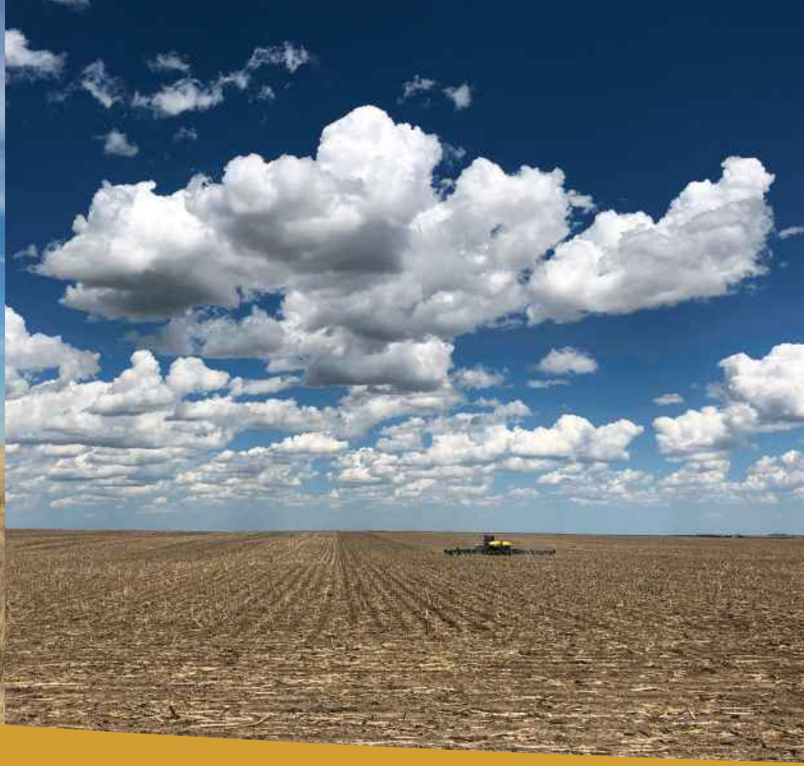
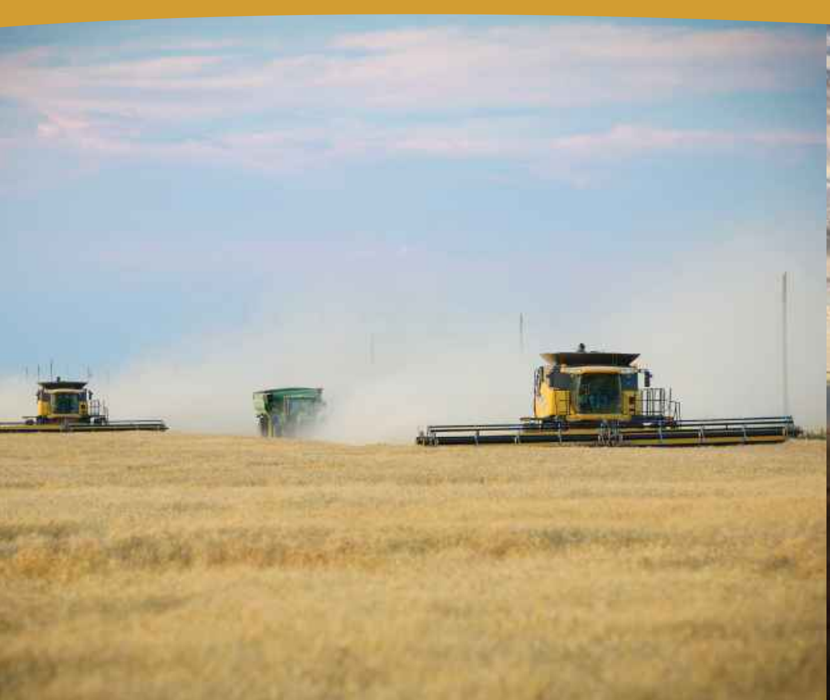
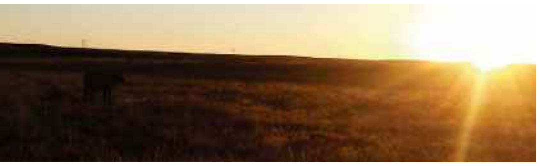



Premier Farm Credit

PREMIERACA.com

ANNUAL REPORT 2020



PRESIDENT'S MESSAGE TO STOCKHOLDERS

Dear Members:

It goes without saying that 2020 proved to be a challenging and eventful year. The year started out with general optimism for improved economic conditions in the agriculture sector as a result of new trade agreements and a strong general economy. By March, a global pandemic had been declared and everything changed. The initial economic and societal impacts were significant. The way business had to be conducted and our daily routines changed drastically due to stay at home orders and health guidelines.

Despite these challenges, your Association steadfastly continued to meet the financing needs of our members and I'm pleased to report that 2020 was another successful year for Premier Farm Credit. The Association realized net earnings of $13.8 million with loan volume growth of 7.43%, ending the year with volume exceeding $760 million. Total shareholder equity increased to $180.2 million, and at year end our total regulatory capital ratio remained strong at 18.92%. Our strong capital base not only supports current operations, it also ensures we have the resources to fund your future needs.

The Board of Directors continued to demonstrate their commitment to a meaningful patronage program by declaring a cash patronage dividend of $4.5 million for 2020 business. This $4.5 million represents approximately 33% of net earnings. **Our strong patronage program, combined with competitive interest rates, demonstrates our commitment to providing value to our membership. As a member of Premier Farm Credit, you share in the success of your cooperative.** Since 1996, the total amount of cash patronage dividends returned to our member-owners is $68.5 million!

We are proud of the impact we make by providing a dependable source of credit and sharing our profits, much of which gets reinvested locally. Additionally, we continue to strive to be a strong community partner and advocate for agriculture by investing in numerous youth and educational outreach programs and projects that support agriculture and our rural economy. We also actively lobby and support numerous legislative efforts that support and defend agriculture.

We are proud to be your lending cooperative and thankful for the opportunity to support agriculture in the communities we serve. We realize that our success is largely attributed to the loyalty of our membership. Please accept our sincere appreciation for your continued support and commitment to the Association.

Sincerely,

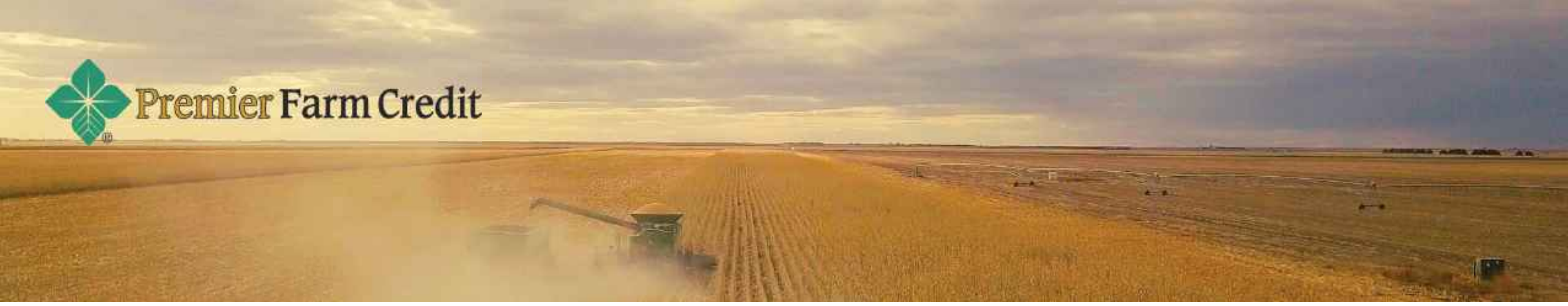
Michael Grauberger
President and Chief Executive Officer

Michael Grauberger
President and CEO

We are pleased to present the 2020 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.

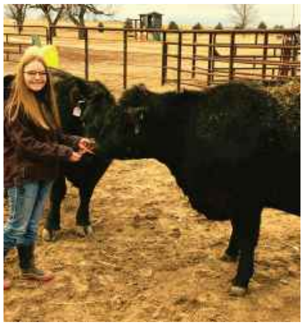
Premier Farm Credit Mission Statement

Premier Farm Credit supports rural communities by providing sound, competitively priced credit and related services to enhance the economic well-being of farmers, ranchers and ag businesses.



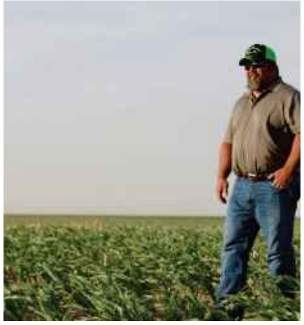
INVESTING IN AGRICULTURE AND RURAL COMMUNITIES

Every day we live our mission to serve agriculture and rural communities, today and tomorrow, through our actions, outreach and giving efforts. We make a difference by focusing on all aspects of agriculture, youth, beginning farmers, community activities and support, education, diversity, and creating new connections.



YOUTH ACTIVITIES

We invest heavily in youth activities in communities across our territory - from volunteering time and resources to supporting a wide variety of activities that bolster youth involved in 4-H, FFA, clubs, sports, education, internships, county fairs, rodeos, and community endeavors.

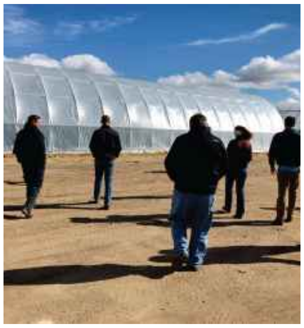


PATRONAGE

We paid a large $4.5 Million Cash Patronage Dividend to our member-owners for their 2020 business. We've returned $14.5 million over the last 3 years, which means an average interest rate reduction of nearly 1%. Returning this capital to our members enhances both their well-being and the health of their communiites.

YOUNG, BEGINNING, SMALL PRODUCERS

We invest in lending programs, education and opportunities to connect with young, beginning and small producers in many ways, including our Colorado State University Student Board of Directors. We strive to forge fresh connections so we can serve new markets and individuals.

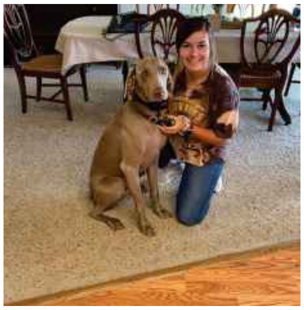


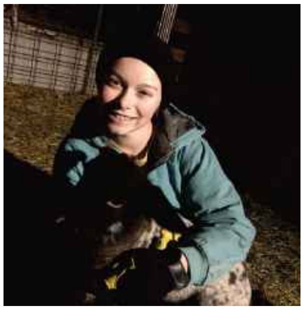
PAYCHECK PROTECTION PROGRAM

Premier Farm Credit focused time, effort and resources into supporting producers eligible for the Paycheck Protection Program on an accelerated timeframe. This truly demonstrates our commitment to supporting our members in any way we are able.

GRO PROGRAM

2020 was another successful year for our GRO Program (grants for 4-H and FFA members). The 7 recipients for 2019/2020 finished their projects and grew in knowledge, leadership and abilities. 12 recipients were chosen for the 2020/2021 funding cycle and they demonstrate a wide variety of diversity, need, experience and project types. Premier employees mentor these recipients and provide support for their projects. The GRO Program as a whole facilitates increased participation in 4-H and FFA, fosters learning about agriculture, and helps inspire a lifelong passion for ag.





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 volunteering
- High Plains Clay Busters
- Colorado FFA Foundation
- Colorado Young Farmers
- Community Foundation of Northern Colorado
- NJC College Foundation
- Colorado Young Farmers Education Association
- Morgan County Community College Foundation
- County Fair sponsorships and involvement
- Colorado Ag in the Classroom

...and too many more to list!

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2020	2019	2018	2017	2016
Statement of Condition Data					
Loans	**$ 764,184**	$ 711,281	$ 679,654	$ 673,782	$ 663,887
Less allowance for loan losses	**2,155**	2,178	2,790	2,796	2,508
Net loans	**762,029**	709,103	676,864	670,986	661,379
Investment in CoBank, ACB	**23,515**	21,782	21,639	21,547	20,860
Other assets	**29,742**	31,665	28,943	28,343	23,623
Total assets	**$ 815,286**	$ 762,550	$ 727,446	$ 720,876	$ 705,862
Obligations with maturities of one year or less	**$ 26,037**	$ 21,110	$ 17,605	$ 20,451	$ 16,351
Obligations with maturities longer than one year	**608,703**	570,174	547,441	547,948	545,410
Reserve for unfunded commitments	**361**	351	337	426	387
Total liabilities	**635,101**	591,635	565,383	568,825	562,148
Capital stock	**845**	867	862	901	938
Unallocated retained earnings	**179,587**	170,325	161,486	151,540	142,826
Accumulated other comprehensive income/(loss)	**(247)**	(277)	(285)	(390)	(50)
Total shareholders' equity	**180,185**	170,915	162,063	152,051	143,714
Total liabilities and shareholders' equity	**$ 815,286**	$ 762,550	$ 727,446	$ 720,876	$ 705,862

	For the Year Ended December 31				
	2020	2019	2018	2017	2016
Statement of Income/(Expense) Data					
Net interest income	**$ 20,086**	$ 19,522	$ 18,535	$ 18,148	$ 17,376
Patronage distribution from Farm Credit institutions	**2,854**	2,531	3,019	2,568	2,749
Credit loss reversal/(Provision for credit losses)	**41**	484	122	(324)	(293)
Noninterest expense, net	**(9,205)**	(8,198)	(7,214)	(7,923)	(7,819)
Provision for income taxes	**(14)**	-	(16)	(5)	(89)
Net income	**$ 13,762**	$ 14,339	$ 14,446	$ 12,464	$ 11,924
Comprehensive income	**$ 13,792**	$ 14,347	$ 14,551	$ 12,124	$ 11,929
Key Financial Ratios					
For the Year					
Return on average assets	**1.77%**	1.98%	2.03%	1.78%	1.76%
Return on average shareholders' equity	**7.75%**	8.47%	9.07%	8.33%	8.45%
Net interest income as a percentage of average earning assets	**2.73%**	2.85%	2.75%	2.73%	2.70%
Net (recoveries)/charge-offs as a percentage of average net loans	**<(0.01%)**	0.02%	<(0.01%)	<(0.01%)	(0.04%)
At Year End					
Shareholders' equity as a percentage of total assets	**22.10%**	22.41%	22.28%	21.09%	20.36%
Debt as a ratio to shareholders' equity	**3.52:1**	3.46:1	3.49:1	3.74:1	3.91:1
Allowance for loan losses as a percentage of loans	**0.28%**	0.31%	0.41%	0.41%	0.38%
Common equity tier 1 (CET1) capital ratio	**18.63%**	19.14%	18.47%	17.37%	N/A
Tier 1 capital ratio	**18.63%**	19.14%	18.47%	17.37%	N/A
Total regulatory capital ratio	**18.92%**	19.45%	18.87%	17.81%	N/A
Tier 1 leverage ratio	**20.39%**	20.85%	20.09%	18.91%	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**20.86%**	21.32%	20.56%	19.29%	N/A
Permanent capital ratio	**18.67%**	19.19%	18.53%	17.44%	17.27%
Total surplus ratio	**N/A**	N/A	N/A	N/A	17.14%
Core surplus ratio	**N/A**	N/A	N/A	N/A	17.14%
Net Income Distribution					
Cash patronage distributions paid	**$ 5,500**	$ 4,500	$ 3,750	$ 3,500	$ 3,000
Cash patronage declared	**$ 4,500**	$ 5,500	$ 4,500	$ 3,750	$ 3,500

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, 2020. 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

As of December 31, 2020, 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 provides 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. A 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 2020, economic conditions in our region were challenging and eventful. The year started out with stress on the agricultural sector, but generally was optimistic and favorable overall. Cash grains functioned on an outlook that prices would remain at or below 2019 levels and there was optimism in the cattle sector. Across the board, producers focused on reducing costs, maximizing production and improving management. The local economy reflected stability with low unemployment, strong housing demand, and some new business investment. The year began with the Federal Open Market Committee (FOMC) Fed Funds rate at 1.75% due to slow global growth and muted inflation. The FOMC issued a statement on January 29, 2020 which in summary, stated the labor market remained strong, economic activity had been rising at a moderate rate, job gains had been solid and unemployment remained low. Signs of potential stress were on the horizon due to the COVID-19 outbreak in China in December, but the seriousness of the situation was undetermined.

By the end of February, the situation had dramatically changed with deaths from the virus reported across the globe. The U.S. stock markets plummeted and the agricultural markets followed suit. By the end of March, a global pandemic had been declared, the FOMC had dropped the Fed Funds rate to 0.25%, an $8.3 billion emergency spending package was in place to combat the outbreak, most states had issued 'shelter in place' orders, non-essential businesses were closed and most learning, business and worship was conducted online. The end of the first quarter resulted in one of the worst quarters in stock market history, and the Federal government implemented several technical changes, injected cash, introduced regulatory easing, offered additional stabilizing services and the House and Senate had passed a $2 trillion stimulus package. Our offices closed to the public and the staff worked in a combination of remote and rotational shifts. Producers' financial situations continued to deteriorate due to the declining prices, with the livestock and corn sectors being hit the hardest. Some meat-packing facilities began to have workers affected by the virus, which was damaging to the supply chain.

The U.S. government initiated various programs in support of the COVID-19 economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. Among other provisions, the CARES Act made funds available for small businesses under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the Small Business Administration (SBA). Our Association obtained approval from the SBA to participate as a lender in the PPP. We continue to lend under the second round of government funding for PPP loans during the first quarter of 2021. Congress also provided additional funding for small business disaster loans and direct payments to farmers and ranchers as a result of the COVID-19 pandemic as well as making purchases of agriculture products. The impact of these and other U.S. government support programs and stimulus on the broader agricultural economy and our customers in particular is uncertain at this time.

The second quarter of 2020 experienced increased stress economically, socially and politically across the nation and in our lending territory. The GDP plummeted, unemployment skyrocketed, consumer spending and economic output contracted sharply. The Fed Funds rate remained at 0.25%. The agricultural sector in our territory continued to be challenged with low commodity prices, adverse weather conditions and poor crop conditions. Heat in excess of normal set up the pattern for what would develop into a severe drought and high winds and hail caused damage to some operations. In April, Congress increased funding for the Paycheck Protection Program (PPP) in which Premier Farm Credit processed $1.2 million in applications. Producers applied for the Coronavirus Food Assistance Program. Both of these programs were critical in helping producers weather the economic situation. Our business operations remained affected by the pandemic, but continued to be high functioning, as lobbies reopened in June with social distancing and health guidelines in place. We continued to offer customized loan solutions for borrowers experiencing financial stress, with much success where needed.

2020 continued its pattern of events in the third quarter, with rising political and social unrest, unsettled global conditions, extreme weather conditions, and challenging trade and economic conditions. Unemployment began to decline, but was still higher than in February 2020. Consumer spending continued to rise, and stocks surged before waning in September. The markets were affected by continued trade progress and setbacks with China. Large fires across the west, tropical storms in the east and a surprise derecho storm, a fast-moving band of thunderstorms with destructive winds that swept across the Midwest caused significant financial and physical damage. Locally, producers continued to grapple with unfavorable markets and production conditions, including severe drought. Continued government support of the agricultural sector brought relief and continuity, along with the support of crop insurance. We continued to process PPP loans to support producers. Business operations remained affected, but continued to be high functioning.

The fourth quarter of 2020 continued the trend of unrest and uncertainty, and like each previous quarter, revealed an unpredictable chain of events. On December 21, 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for PPP loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. Politically, the Democratic Presidential challenger Joe Biden narrowly defeated incumbent President Donald Trump, in an election marked with significant division and speculation about the accuracy of the voting system in the U.S. Much social and political unrest accompanied the election, and highlighted the tense polarization occurring in the country. In November, the first COVID-19 vaccines began to be administered, bolstering optimism and causing the markets to jump. The timeline for immunization continued to cause concern, as it may take years to reach full effectiveness, as new mutations of the virus emerge. Damage to the economy and society as a whole continued to be significant and evolve, with the long-term outlook for full recovery in question. Many businesses closed because of the pandemic, and unemployment ended the year at 6.7%, according to the US Bureau of Labor Statistics. The Fed Funds rate remained at 0.25% and the FOMC has expressed an intention to leave it there until conditions materially improve. Locally, producers took stock of a year of volatility marked by extreme market and weather disruptions, and looked for ways to improve management and margins. Producers' earnings continued to be largely stable at year-end, due largely in part to government support and higher cash grain prices. Government support and involvement going forward continues to be an area of speculative concern, as the incoming Administration's climate change focus includes agriculture's role as a priority (at a time with stressed farm margins and strained farmers). Local land values remained stable through the year despite challenging market conditions. Operations continued to remain changed but highly functioning at the Association, with employees demonstrating resilience and flexibility in meeting the needs of our borrower-owners while respecting the demands of operating in a global health pandemic.

In summary, the ongoing effects of the COVID-19 pandemic could have a material adverse effect on our Association's business, results of operations and financial condition going forward. The pandemic has heightened many risks, including credit risk, liquidity risk, market risk, and operational risk. The effectiveness of our mitigation efforts and the extent to which COVID-19 affects our business, results of operations and financial condition may depend on factors beyond our control. Regardless, we continue to operate successfully, profitably, and with a sharp eye for potential risk on all fronts going forward. We continue to monitor developments and adjust as needed to maintain continuity in all areas of our business.

Loan growth was above our projections in 2020. Portfolio growth was achieved from the purchased loan portfolio. Direct loan volume remained steady from year-end 2019. Credit quality continued to improve in the direct loan portfolio due to a combination of factors including improving financial conditions, borrowers restructuring of debt, and some liquidation of capital assets. Credit quality is anticipated to remain sound in 2021, insulated in part with the diversification of the purchased loan portfolio. The credit quality of the purchased loan portfolio remained stable in 2020. This is attributed to the diversity and types of businesses financed within this portfolio. The broad commodity sectors financed within the purchased loan portfolio also 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 2021.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This Farm Bill governs 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 Farm Bill continues to provide support for crop insurance 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 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 $764.2 million at December 31, 2020, an increase of $52.9 million, or 7.4%, from loans at December 31, 2019 of $711.3 million, and an increase of $84.5 million, or 12.4%, from loans at December 31, 2018 of $679.7 million. The increase in loans was primarily due to growth in the participations purchased portfolio 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.

	2020		2019		2018	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$402,413**	**52.7%**	$383,380	53.9%	$378,619	55.7%
Production and intermediate-term loans	**166,701**	**21.8%**	166,869	23.5%	158,114	23.3%
Agribusiness loans	**137,845**	**18.1%**	116,145	16.3%	102,086	15.0%
Rural infrastructure loans	**48,508**	**6.3%**	37,082	5.2%	36,846	5.4%
Agricultural export finance loans	**8,345**	**1.1%**	7,651	1.1%	3,989	0.6%
Rural residential real estate	**372**	**–**	154	–	–	–
Total	**$764,184**	**100.0%**	$711,281	100.0%	$679,654	100.0%

Real estate mortgage loans outstanding increased 5.0% to $402.4 million, compared with $383.4 million at year-end 2019, 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 decreased 0.1% to $166.7 million, compared with 2019 loans of $166.9 million, primarily due to repayment on direct operating lines. 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 18.7% to $137.8 million compared with 2019 loans of $116.1 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, where approximately 98% of agribusiness and 100% of rural infrastructure and agricultural export finance volume were a result of loan participations purchased.

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)	**2020**	2019	2018
Participations purchased	**$ 274,335**	$ 221,430	$ 198,622
Participations sold	**$ 30,618**	$ 30,079	$ 42,122

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.

	2020	2019	2018
Logan	**9.79%**	10.37%	10.88%
Morgan	**9.31%**	9.63%	8.94%
Phillips	**7.81%**	9.23%	11.23%
Sedgwick	**1.11%**	0.95%	1.04%
Washington	**7.25%**	7.01%	7.23%
Yuma	**19.65%**	20.58%	20.06%
Other Colorado Counties	**9.78%**	9.36%	10.29%
Other States	**35.30%**	32.87%	30.33%
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 States category represents 35.30% of the portfolio, a 2.43% increase from 2019. 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	**2020**	2019	2018
Corn	**28.81%**	31.53%	32.79%
Beef	**18.67%**	18.70%	19.24%
Wheat	**7.26%**	8.21%	8.71%
Landlords	**5.73%**	5.67%	5.16%
Other	**39.53%**	35.89%	34.10%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of corn, beef, and wheat producers. The Other category is comprised of 98 separate commodity groups; with the largest representing 2.53% 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, 2020, approximately 56% consists of borrowers with income not solely from agricultural sources, a decrease from 61% for 2019, and 60% for 2018.

The loans outstanding at December 31, 2020 for loans $250 thousand or less accounted for 16.9% of loan volume and 71.2% 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.

	2020		2019		2018	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 128,901**	**1,852**	$ 136,882	1,667	$ 134,443	1,666
$251 - $500	**119,403**	**339**	116,840	329	114,008	323
$501 - $1,000	**176,400**	**241**	168,005	234	171,893	234
$1,001 - $5,000	**294,271**	**162**	257,279	142	221,466	128
$5,001 – 25,000	**45,209**	**6**	32,275	4	37,844	4
Total	**$ 764,184**	**2,600**	$ 711,281	2,376	$ 679,654	2,355

As of December 31, 2020, approximately 11% 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 $19.1 million at year-end 2020, $17.2 million at year-end 2019 and $14.8 million at year-end 2018 were outstanding. We utilize Farm Service Agency (FSA) 90% or 95% loan guarantees when appropriate to manage the Association's 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. During 2020, the Association's credit guarantees with government agencies also included loans guaranteed at 100% by SBA.

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, 2020.

(dollars in thousands)	**Due 1 year or less**	**Due after 1 year through 3 years**	**Due after 3 years through 5 years**	**Due after 5 years**	**Total**
Commitments to extend credit	$ 81,113	$ 78,168	$ 53,049	$ 10,908	$223,238
Standby letters of credit	1,346	844	177	105	2,472
Total commitments	$ 82,459	$ 79,012	$ 53,226	$ 11,013	$225,710

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 commitments 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)	**2020**	2019	2018
Nonaccrual loans:			
Real estate mortgage	**$ 67**	$ 78	$ 1,816
Agribusiness	**202**	758	1,421
Total nonaccrual loans	**269**	836	3,237
Total high risk assets	**$ 269**	$ 836	$ 3,237
Nonaccrual loans to total loans	**0.04%**	0.12%	0.48%
High risk assets to total loans	**0.04%**	0.12%	0.48%
High risk assets to total shareholders' equity	**0.15%**	0.49%	2.00%

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

Total high risk assets decreased $567 thousand, or 67.8%, to $269 thousand at December 31, 2020 compared with year-end 2019. 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 $567 thousand compared with December 31, 2019 and decreased $2.4 million in 2019 compared with December 31, 2018 due to payoffs. At December 31, 2020, two loans to two 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)	**2020**	2019	2018
Nonaccrual loans current as to principal and interest	**$ 269**	$ 266	$ 2,460
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, as we presently have minimal volume in this category. 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.

	2020	2019	2018
Acceptable	**90.44%**	87.34%	86.28%
OAEM	**6.56%**	7.36%	6.61%
Substandard	**3.00%**	5.30%	7.11%
Total	**100.00%**	100.00%	100.00%

During 2020, overall credit quality improved. Loans classified as Acceptable and OAEM were 97.00% at December 31, 2020, 94.70% at December 31, 2019 and 92.89% at December 31, 2018. 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. As of December 31, 2020, we had no loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans, compared with 0.80% at December 31, 2019 and 0.40% at December 31, 2018.

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)	**2020**	2019	2018
Balance at beginning of year	**$ 2,178**	$ 2,790	$ 2,796
Charge-offs:			
Production and intermediate-term	**–**	1	1
Agribusiness	**–**	130	–
Total charge-offs	**–**	131	1
Recoveries:			
Production and intermediate-term	**5**	6	6
Agribusiness	**23**	11	–
Rural infrastructure	**–**	–	22
Total recoveries	**28**	17	28
Net (recoveries)/charge-offs	**(28)**	114	(27)
Loan loss reversal	**(51)**	(498)	(33)
Balance at December 31	**$ 2,155**	$ 2,178	$ 2,790
Net (recoveries)/charge-offs to average net loans	**<(0.01%)**	0.02%	<(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)	**2020**	2019	2018
Real estate mortgage	**$ 342**	$ 480	$ 1,132
Production and intermediate-term	**636**	796	750
Agribusiness	**836**	650	683
Rural infrastructure	**302**	219	208
Agricultural export finance	**39**	33	17
Total	**$ 2,155**	$ 2,178	$ 2,790

The allowance for loan losses decreased $23 thousand from December 31, 2019, to $2.2 million at December 31, 2020. The decrease in allowance for loan losses was primarily due to the loan loss reversals totaling $51 thousand that were recorded due to improved credit quality. Net recoveries of $28 thousand were recorded during 2020 related to the agribusiness sector of the direct loan portfolio. During 2019, our allowance for loan losses decreased $612 thousand from 2018 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. 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.

	2020	2019	2018
Allowance as a percentage of:			
Loans	**0.28%**	0.31%	0.41%
Impaired loans	**801.12%**	260.53%	86.19%
Nonaccrual loans	**801.12%**	260.53%	86.19%

We maintain 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.

(dollars in thousands)	**2020**	2019	2018
Balance at beginning of year	**$ 351**	$ 337	$ 426
Provision for/(Reversal of) reserve for unfunded commitments	**10**	14	(89)
Balance at December 31	**$ 361**	$ 351	$ 337

The increase in the reserve for unfunded commitments in 2020 is due to an increase in 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 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	**2020**	2019	2018
Young	18.26%	**22.21%**	21.63%	23.02%
Beginning	24.82%	**22.15%**	21.00%	22.00%
Small	63.18%	**35.07%**	34.49%	35.57%

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 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 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 2020, we donated to 96 different groups or organizations where YBS members are active. We are proud to report that 40% of the members of the Nominating Committee are reflected as young, beginning and/or small farmers in our loan portfolio.

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 2021 Business Plan reflect an annual growth rate of 4.0% 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
12/31/2021	381	$ 96,479	380	$ 88,384	601	$ 64,077
12/31/2022	396	$ 100,619	395	$ 91,919	625	$ 66,641
12/31/2023	412	$ 104,644	411	$ 95,596	650	$ 69,306

As reflected in the following chart, during 2020, we experienced loan number reduction in each of the young, beginning, and small categories, and loan volume reduction in the small category. Loan volume increased in the young and beginning categories. Capital asset prices continued to remain high during 2020, making it difficult for the young and beginning farmers to begin farming operations. Cash grain and livestock prices continued at low levels, which affected the 2020 results. Input and living costs continue to rise. These factors present challenges for YBS farmers. In order to recognize profits, many farmers have diversified their operations in other commodity areas. Diversification is more difficult for YBS farmers due to the amount of capital required for equipment or livestock. The commodity prices increased at year-end and are expected to have a positive effect on many producers in 2021.

($000's)	Young	Beginning	Small
2020 Goal	390	378	621
	$88,190	$77,840	$63,976
2020 Actual	366	365	578
	$93,028	$84,984	$61,613
2019 Actual	380	369	606
	$86,039	$75,942	$62,415

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 2020, we recorded net income of $13.8 million, compared with $14.3 million in 2019, and $14.4 million in 2018. The decrease in 2020 was primarily due to an increase in operating expenses and provision for income taxes, and a decrease in the credit loss reversal. These factors were partially offset by increases in net interest income and noninterest income. The decrease in 2019 was primarily due to a decrease in noninterest income and an increase in operating expenses. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net income, prior year	**$ 14,339**	$ 14,446
Increase/(Decrease) from changes in:		
Interest income	**(3,557)**	1,803
Interest expense	**4,121**	(816)
Net interest income	**564**	987
Credit loss reversal	**(443)**	362
Noninterest income	**383**	(1,031)
Noninterest expense	**(1,067)**	(441)
Provision for income taxes	**(14)**	16
Total decrease in net income	**(577)**	(107)
Net income, current year	**$ 13,762**	$ 14,339

Return on average assets decreased to 1.77% from 1.98% in 2019, and return on average shareholders' equity decreased to 7.75% from 8.47% in 2019, primarily as a result of average assets and average shareholders' equity increasing while net income decreased from 2019.

Net Interest Income

Net interest income for 2020 was $20.1 million compared with $19.5 million for 2019 and $18.5 million for 2018. 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, partially offset with lower loan interest rates. The following table provides an analysis of the individual components of the change in net interest income during 2020 and 2019.

(dollars in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net interest income, prior year	**$ 19,522**	$ 18,535
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(5,509)**	1,083
Interest rates paid	**4,905**	(782)
Volume of interest-bearing assets and liabilities	**1,367**	448
Interest income on nonaccrual loans	**(199)**	238
Increase in net interest income	**564**	987
Net interest income, current year	**$ 20,086**	$ 19,522

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

	Year Ended December 31		
	2020	2019	2018
Net interest margin	**2.73%**	2.85%	2.75%
Interest rate on:			
Average loan volume	**4.20%**	5.04%	4.84%
Average debt	**1.82%**	2.72%	2.57%
Interest rate spread	**2.38%**	2.32%	2.27%

The increase in interest rate spread resulted from an 84 basis point decrease in interest rates on average loan volume and a 90 basis point decrease in interest rates on average debt. The decrease in net interest margin was due to lower earnings on our own capital, partially offset by the increase in interest rate spread.

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 commitments 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 $41 thousand in 2020, compared with $484 thousand in 2019 and $122 thousand in 2018. The loan loss reversals of $51 thousand recorded during 2020 were primarily due to improved credit quality. The provision for reserve for unfunded commitments of $10 thousand was recorded during 2020 due to additional commitments to extend credit.

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 reversal for reserve for unfunded commitments of $14 thousand recorded during 2019 was due to additional commitments to extend credit. The loan loss reversals of $33 thousand recorded in 2018 were primarily due to improved credit quality. The reversal for reserve for unfunded commitments of $89 thousand recorded during 2018 was due to improved credit quality.

Noninterest Income

During 2020, we recorded noninterest income of $4.6 million, compared with $4.2 million in 2019 and $5.3 million in 2018. 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 $2.8 million in 2020 which includes additional patronage distribution from CoBank of $491 thousand due to CoBank's strong capital levels and financial results. Patronage earned from CoBank was $2.5 million in 2019, and $3.0 million in 2018 which included a special cash patronage distribution of $351 thousand relating to tax reform changes.

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 2020, we received 95 basis points on participation loans and 36 basis points on our direct note with CoBank for all other loans. In 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. These basis points are before any special patronage distributed by CoBank. In addition, CoBank has indicated our patronage income related to our direct note with CoBank will be 39 basis points in 2021, 36 basis points in 2022 and 33 basis points in 2023.

In 2020, we recorded a cash patronage of $8 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 $7 thousand recorded in 2019 and $6 thousand in 2018. 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 $148 thousand during 2020, $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 $357 thousand during 2020, which is distributed to us quarterly by CoBank. Mineral income decreased from $532 thousand in 2019 and $488 thousand in 2018. The decrease is attributed to the rapid oil demand destruction caused by the pandemic, plummeting crude oil prices, low natural gas prices, and decreased drilling activity and production.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2020 were $536 thousand, an increase of $201 thousand from 2019, primarily due to increased loan conversion fees, partially offset by increased deferral of loan fees. Financially related services income in 2020 was $543 thousand, an increase of $37 thousand from 2019. The increase was primarily attributed to increased rural home loan origination and fee appraisal income. These increases were partially offset with lower crop insurance commission revenue.

Noninterest Expense

Noninterest expense for 2020 increased $1.1 million, or 10.8%, to $11.0 million compared with 2019 and $1.5 million, or 15.9% compared with 2018. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2020**	2019	2018	**2020/2019**	2019/2018
Salaries & employee benefits	**$ 6,236**	$ 5,115	$ 5,102	**21.92%**	0.25%
Occupancy & equipment	**416**	437	431	**(4.81%)**	1.39%
Purchased services from AgVantis	**1,719**	1,640	1,426	**4.82%**	15.01%
Supervisory & examination costs	**284**	288	274	**(1.39%)**	5.11%
Other	**1,779**	1,968	1,771	**(9.60%)**	11.12%
Total operating expense	**10,434**	9,448	9,004	**10.44%**	4.93%
Farm Credit Insurance Fund premium	**512**	448	451	**14.29%**	(0.67%)
Prepayment expense	**17**	–	–	**100.00%**	–
Total noninterest expense	**$ 10,963**	$ 9,896	$ 9,455	**10.78%**	4.66%

For the year ended December 31, 2020, total operating expense increased $986 thousand, or 10.4%, compared with the year ended December 31, 2019. Salary and employee benefits increased in 2020, primarily due to pension expense related to changes in certain plan assumptions and employee health benefits. Also impacting salaries in both 2020 and 2019 were increases in salaries, bonuses and incentives. Purchased services from AgVantis increased in 2020 and 2019, primarily due to increases in fees charged. Other expenses decreased in 2020 due to fluctuations in directors, training, advertising, and public relations expenses primarily as a result of COVID-19. These same expenses along with fluctuations in CFG loan servicing fees increased in 2019 from 2018. Insurance Fund premium increased $64 thousand to $512 thousand at December 31, 2020 due to an increase in average loan volume. Additionally, we recorded excess prepayment expense of $17 thousand during 2020 due to fees charged by CoBank related to excess loan prepayments, primarily from loan conversions that resulted from the low interest rate environment in the wake of the COVID-19 pandemic.

Provision for income taxes

We recorded $14 thousand in provision for income taxes during 2020, compared with no provision for income taxes in 2019 and $16 thousand in 2018. The increase in 2020 was primarily due to increased taxable earnings, while the decrease in 2019 was due to decreased 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.

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 $580.1 million in 2020, $538.8 million in 2019 and $536.9 million in 2018.

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 a specified term 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, and adjustable prime-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.

In 2017, the United Kingdom's Financial Conduct Authority 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. 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 Secured Overnight Financing Rate (SOFR) or any other alternative reference rate will become the benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers. Management has documented a LIBOR transition plan to address the phase out of LIBOR rates in the future, including any updates to processes and loan servicing technology.

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.

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, 2020 totaled $180.2 million, compared with $170.9 million at December 31, 2019 and $162.1 million at December 31, 2018. The increase of $9.3 million in shareholders' equity reflects net income and a decrease in accumulated other comprehensive loss, partially offset by patronage refunds and net stock retirements. Our capital position is reflected in the following ratio comparisons.

	2020	2019	2018
Debt to shareholders' equity	**3.52:1**	3.46:1	3.49:1
Shareholders' equity as a percent of net loans	**23.65%**	24.10%	23.94%
Shareholders' equity as a percent of total assets	**22.10%**	22.41%	22.28%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2019 primarily due to the growth in shareholders' equity not exceeding the relative increases in net loans and total assets.

Retained Earnings

Our retained earnings increased $9.3 million to $179.6 million at December 31, 2020 from $170.3 million at December 31, 2019 and increased $18.1 million from $161.5 million at December 31, 2018. The increase in 2020 was a result of net income of $13.8 million, partially offset by $4.5 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 $5.5 million in 2020, $4.5 million in 2019 and $3.8 million in 2018. During 2020, we declared patronage distributions of $4.5 million to be paid in February and March 2021.

Stock

Our total stock decreased $22 thousand to $845 thousand at December 31, 2020, from $867 thousand at December 31, 2019 and decreased from $862 thousand at December 31, 2018. The decrease during 2020 was due to $80 thousand of stock retirements, partially offset by $58 thousand of stock issuances. 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 $247 thousand at December 31, 2020, a decrease of $30 thousand compared with year-end 2019 and a decrease of $38 thousand compared with year-end 2018. 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, 2020, 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.

	2020	2019	2018	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**18.63%**	19.14%	18.47%	17.37%	7.00%
Tier 1 Capital ratio	**18.63%**	19.14%	18.47%	17.37%	8.50%
Total Capital ratio	**18.92%**	19.45%	18.87%	17.81%	10.50%
Tier 1 Leverage ratio	**20.39%**	20.85%	20.09%	18.91%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	**20.86%**	21.32%	20.56%	19.29%	1.50%
Permanent capital ratio	**18.67%**	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, 2020, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

The table below presents the capital ratios prior to the new capital regulations implemented in 2017. As displayed, we exceeded the minimum regulatory capital requirements in effect at December 31, 2016.

	2016	Regulatory Minimum
Permanent capital ratio	17.27%	7.00%
Total surplus ratio	17.14%	7.00%
Core surplus ratio	17.14%	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, 2020, 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 2020, nine 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;
- 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; and
- oversight 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.

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 six members of the Board of Directors. During 2020, 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 continued coronavirus pandemic, 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 Commitments

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 commitments to cover probable losses. This reserve is reported as a liability in our consolidated balance sheet. The reserve for unfunded commitments 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 commitments 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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www.premieraca.com

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Toll Free: 877.650.8240

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 2020 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 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.

Rebecca K.W. Lenz
Chair of the Board

Michael Grauberger
President and Chief Executive Officer

Jeffrey L. Schumacher
Chief Financial Officer

March 9, 2021

Premier Farm Credit
The Gold Standard in Ag Lending

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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 2020, eight 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 2020.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2020 were $61,200 for audit services, $9,400 for tax services, $2,000 for non-audit services for new accounting pronouncement review accrued in 2019, and $5,400 for additional audit services accrued in 2019.

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, 2020 (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, 2020 and for filing with the Farm Credit Administration.

Lyndsey D. Graves

Lyndsey D. Graves, Chair of the Audit Committee

Audit Committee Members
Lyndsey D. Graves
Michael J. Brownell
Randall W. Kirkwood
Lisa E. Shinn

March 9, 2021

pwc

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, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, 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, 2021

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		
	2020	2019	2018
ASSETS			
Loans	**$ 764,184**	$ 711,281	$ 679,654
Less allowance for loan losses	**2,155**	2,178	2,790
Net loans	**762,029**	709,103	676,864
Cash	**11,507**	12,840	11,364
Accrued interest receivable	**9,937**	10,786	10,130
Investment in CoBank, ACB	**23,515**	21,782	21,639
Premises and equipment, net	**775**	910	967
Prepaid benefit expense	**3,125**	2,666	1,836
Other assets	**4,398**	4,463	4,646
Total assets	**$ 815,286**	$ 762,550	$ 727,446
LIABILITIES			
Note payable to CoBank, ACB	**$ 607,925**	$ 568,955	$ 546,137
Advance conditional payments	**15,262**	11,019	9,957
Accrued interest payable	**778**	1,219	1,304
Patronage distributions payable	**4,500**	5,500	4,500
Accrued benefits liability	**783**	757	697
Reserve for unfunded commitments	**361**	351	337
Other liabilities	**5,492**	3,834	2,451
Total liabilities	**$ 635,101**	$ 591,635	$ 565,383
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Capital stock	**845**	867	862
Unallocated retained earnings	**179,587**	170,325	161,486
Accumulated other comprehensive income/(loss)	**(247)**	(277)	(285)
Total shareholders' equity	**180,185**	170,915	162,063
Total liabilities and shareholders' equity	**$ 815,286**	$ 762,550	$ 727,446

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		
	2020	2019	2018
INTEREST INCOME			
Loans	**$ 30,913**	$ 34,470	$ 32,667
Total interest income	**30,913**	34,470	32,667
INTEREST EXPENSE			
Note payable to CoBank, ACB	**10,771**	14,794	14,010
Other	**56**	154	122
Total interest expense	**10,827**	14,948	14,132
Net interest income	**20,086**	19,522	18,535
Credit loss reversal	**(41)**	(484)	(122)
Net interest income after credit loss reversal	**20,127**	20,006	18,657
NONINTEREST INCOME			
Financially related services income	**543**	506	601
Loan fees	**536**	335	356
Patronage distribution from Farm Credit institutions	**2,854**	2,531	3,019
Farm Credit Insurance Fund distribution	**148**	163	437
Mineral income	**357**	532	488
Other noninterest income	**174**	162	359
Total noninterest income	**4,612**	4,229	5,260
NONINTEREST EXPENSE			
Salaries and employee benefits	**6,236**	5,115	5,102
Occupancy and equipment	**416**	437	431
Purchased services from AgVantis, Inc.	**1,719**	1,640	1,426
Farm Credit Insurance Fund premium	**512**	448	451
Supervisory and examination costs	**284**	288	274
Prepayment expense	**17**	-	-
Other noninterest expense	**1,779**	1,968	1,771
Total noninterest expense	**10,963**	9,896	9,455
Income before income taxes	**13,776**	14,339	14,462
Provision for income taxes	**14**	-	16
Net income	**13,762**	14,339	14,446
COMPREHENSIVE INCOME			
Amortization of retirement costs	**51**	55	82
Actuarial (loss)/gain in retirement obligation	**(21)**	(47)	23
Total comprehensive income	**$ 13,792**	$ 14,347	$ 14,551

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, 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
Comprehensive income		13,762	30	13,792
Stock issued	58			58
Stock retired	(80)			(80)
Patronage distributions: Cash		(4,500)		(4,500)
Balance at December 31, 2020	**$ 845**	**$ 179,587**	**$ (247)**	**$ 180,185**

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		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 13,762**	$ 14,339	$ 14,446
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**151**	160	173
Credit loss reversal	**(41)**	(484)	(122)
Patronage stock from CoBank, ACB	**(67)**	(81)	(66)
Gains on sales of premises and equipment	**-**	(25)	(8)
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	**849**	(656)	(722)
Increase in prepaid benefit expense	**(459)**	(830)	(573)
Decrease/(Increase) in other assets	**132**	264	(183)
(Decrease)/Increase in accrued interest payable	**(441)**	(85)	273
Increase in accrued benefits liability	**56**	68	91
Increase/(Decrease) in other liabilities	**1,658**	1,383	(1,581)
Total adjustments	**1,838**	(286)	(2,718)
Net cash provided by operating activities	**15,600**	14,053	11,728
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(52,875)**	(31,741)	(5,845)
Increase in investment in CoBank, ACB	**(1,733)**	(143)	(92)
Expenditures for premises and equipment	**(16)**	(103)	(117)
Proceeds from sales of premises and equipment	**-**	25	8
Net cash used in investing activities	**(54,624)**	(31,962)	(6,046)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(repayment of) note payable to CoBank, ACB	**38,970**	22,818	(780)
Increase/(Decrease) in advance conditional payments	**4,243**	1,062	(2,001)
Capital stock retired	**(80)**	(42)	(63)
Capital stock issued	**58**	47	24
Cash patronage distributions paid	**(5,500)**	(4,500)	(3,750)
Net cash provided by/(used in) financing activities	**37,691**	19,385	(6,570)
Net (decrease)/increase in cash	**(1,333)**	1,476	(888)
Cash at beginning of year	**12,840**	11,364	12,252
Cash at end of year	**$ 11,507**	$ 12,840	$ 11,364
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for:			
Interest	**$ 11,268**	$ 15,033	$ 13,859
Income taxes	**$ -**	$ 14	$ 8
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 67**	$ 81	$ 66
Net (recoveries)/charge-offs	**$ (28)**	$ 114	$ (27)
Patronage distributions payable	**$ 4,500**	$ 5,500	$ 4,500
Change in accumulated other comprehensive income/(loss)	**$ 30**	$ 8	$ 105

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020, 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. As of December 31, 2020, 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. 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

Adopted Guidance

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gives entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) and if certain criteria are met these loan modifications may not need to be classified as TDRs. In response to the CARES Act, the FCA issued guidance allowing for temporary relief from accounting and disclosure requirements for TDRs. The Association adopted this relief for qualifying loan modifications. This TDR guidance applied to modifications made beginning March 1, 2020 and terminated on December 31, 2020.

In December 2019, the Financial Accounting Standards Board (FASB) issued guidance entitled "Simplifying the Accounting for Income Taxes." This guidance eliminates certain intra period tax allocations, foreign deferred tax recognition and interim period tax calculations. In addition, the guidance simplifies disclosure regarding capital and franchise taxes, the allocation of goodwill in business combinations, subsidiary financial statements and other disclosures. The new guidance is intended to eliminate and/or simplify certain aspects of income tax accounting that are complex or that require significant judgment in application or presentation. The guidance becomes effective for fiscal years beginning after December 15, 2021. Early adoption of the guidance is permitted and the Association adopted this guidance on January 1, 2020. The adoption of this guidance did not materially impact the Association's financial condition or results of operations; nor did the guidance impact the presentation of taxes for prior periods in the 2020 year-end financial statements.

In August 2018, the 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. The guidance was applied on a prospective basis. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations.

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 became effective for fiscal years ending after December 15, 2020. The guidance was adopted, and was applied on a retrospective basis for all periods. The adoption of this guidance did not materially impact the Association's financial condition or its results of operations, but did 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. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

Guidance Pending Adoption

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association is evaluating the impact of adoption on its financial condition and results of operations.

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

Certain loan modifications that resulted from circumstances related to COVID-19 are eligible under the FCA issued guidance and the Association is not required to report them as a TDR.

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.

On September 10, 2020, the FCA issued a final rule on criteria to reinstate nonaccrual loans that clarifies the factors that System institutions should consider when categorizing high risk loans and placing them in nonaccrual status. The rule also revised the criteria by which loans are reinstated to accrual status, and it revised the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The application of this rule did not impact the classification of any of our recorded nonaccrual balances at December 31, 2020.

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 and are included in Other Assets on the Consolidated Statement of Condition.

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		
(dollars in thousands)	**2020**	2019	2018
Real estate mortgage	**$ 402,413**	$ 383,380	$ 378,619
Production and intermediate-term	**166,701**	166,869	158,114
Agribusiness	**137,845**	116,145	102,086
Rural infrastructure	**48,508**	37,082	36,846
Agricultural export finance	**8,345**	7,651	3,989
Rural residential real estate	**372**	154	–
Total loans	**$ 764,184**	$ 711,281	$ 679,654

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, 2020.

	Other Farm Credit Institutions	
(dollars in thousands)	Purchased	Sold
Real estate mortgage	$ 42,532	$ 25,658
Production and intermediate-term	39,803	4,960
Agribusiness	135,147	–
Rural infrastructure	48,508	–
Agricultural export finance	8,345	–
Total	$ 274,335	$ 30,618

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 $19.1 million at year-end 2020, $17.2 million at year-end 2019 and $14.8 million at year-end 2018 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. During 2020, the Association's credit enhancements with federal government agencies also included loans guaranteed at 100% by the Small Business Administration (SBA).

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.

	2020	2019	2018
Real estate mortgage			
Acceptable	**88.60%**	85.78%	84.32%
OAEM	**8.41%**	9.11%	7.38%
Substandard	**2.99%**	5.11%	8.30%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**86.75%**	83.55%	81.26%
OAEM	**7.15%**	6.93%	9.45%
Substandard	**6.10%**	9.52%	9.29%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**96.82%**	95.91%	97.06%
OAEM	**2.71%**	2.84%	0.86%
Substandard	**0.47%**	1.25%	2.08%
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**98.91%**	91.37%	97.04%
OAEM	**1.09%**	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%**	100.00%	–
Total	**100.00%**	100.00%	–
Total Loans			
Acceptable	**90.44%**	87.34%	86.28%
OAEM	**6.56%**	7.36%	6.61%
Substandard	**3.00%**	5.30%	7.11%
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		
(dollars in thousands)	**2020**	2019	2018
Nonaccrual loans:			
Current as to principal and interest	**$ 269**	$ 266	$ 2,460
Past due	**–**	570	777
Total nonaccrual loans	**269**	836	3,237
Total impaired loans	**$ 269**	$ 836	$ 3,237

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		
(dollars in thousands)	**2020**	2019	2018
Nonaccrual loans			
Real estate mortgage	**$ 67**	$ 78	$ 1,816
Agribusiness	**202**	758	1,421
Total nonaccrual loans	**269**	836	3,237
Total high risk assets	**$ 269**	$ 836	$ 3,237

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

Additional impaired loan information is as follows:

(dollars in thousands)	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 67	$ 78		$ 71	$ –
Production and intermediate term	–	–		6	–
Agribusiness	202	417		230	107
Total	$ 269	$ 495		$ 307	$ 107

The Association had no impaired loans with a related allowance for loan losses at December 31, 2020.

(dollars in thousands)	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

(dollars in thousands)	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

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

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		
(dollars in thousands)	**2020**	2019	2018
Interest income recognized on:			
Nonaccrual loans	**$ 107**	$ 306	$ 68
Interest income recognized on impaired loans	**$ 107**	$ 306	$ 68

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		
(dollars in thousands)	**2020**	2019	2018
Interest income which would have been recognized under the original loan terms	**$ 30**	$ 137	$ 208
Less: interest income recognized	**107**	306	68
Interest income (recognized)/not recognized	**$ (77)**	$ (169)	$ 140

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

	December 31, 2020					
(dollars in thousands)	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	$ –	$ –	$ –	$409,574	$ 409,574	$ –
Production and intermediate-term	25	–	25	169,092	169,117	–
Agribusiness	–	–	–	138,131	138,131	–
Rural infrastructure	–	–	–	48,566	48,566	–
Agricultural export finance	–	–	–	8,359	8,359	–
Rural residential real estate	–	–	–	374	374	–
Total	$ 25	$ –	$ 25	$774,096	$ 774,121	$ –

(dollars in thousands)	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	$ –

(dollars in thousands)	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	$ –

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					
	2020		2019		2018	
	Outstanding Recorded Investment					
(dollars in thousands)	**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, 2020, 2019 and 2018.

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*		
(dollars in thousands)	**2020**	2019	2018	**2020**	2019	2018
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:

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2020
Real estate mortgage	$ 480	$ –	$ –	$ (138)	$ 342
Production and intermediate-term	796	–	5	(165)	636
Agribusiness	650	–	23	163	836
Rural infrastructure	219	–	–	83	302
Agricultural export finance	33	–	–	6	39
Total	$ 2,178	$ –	$ 28	$ (51)	$ 2,155

(dollars in thousands)	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

(dollars in thousands)	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

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/credit loss reversals on the Consolidated Statement of Comprehensive Income, along with the provision for loan losses/loan loss reversals.

A summary of changes in the reserve for unfunded commitments follows:

	For the Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Balance at beginning of period	**$ 351**	$ 337	$ 426
Provision for/(Reversal of) reserve for unfunded commitments	**10**	14	(89)
Total	**$ 361**	$ 351	$ 337

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at December 31, 2020		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2020	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 342	$ 67	$ 409,507
Production and intermediate-term	–	636	–	169,117
Agribusiness	–	836	202	137,929
Rural infrastructure	–	302	–	48,566
Agricultural export finance	–	39	–	8,359
Rural residential real estate	–	–	–	374
Total	$ –	$ 2,155	$ 269	$ 773,852

	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2019	
(dollars in thousands)	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	
(dollars in thousands)	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

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2020, 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, 2020, compared with 0.60 percent at December 31, 2019 and 0.63 percent at December 31, 2018.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Land	**$ 290**	$ 290	$ 290
Buildings and leasehold improvements	**2,408**	2,402	2,402
Furniture, equipment and automobiles	**879**	966	918
	3,577	3,658	3,610
Less: accumulated depreciation	**2,802**	2,748	2,643
Total	**$ 775**	$ 910	$ 967

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, 2020. 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		
(dollars in thousands)	**2020**	2019	2018
Line of credit	**$ 650,000**	$ 610,000	$ 610,000
Outstanding principal and accrued interest balance	**$ 608,694**	$ 570,151	$ 547,407
Average outstanding principal balance under the line of credit	**$ 580,069**	$ 538,822	$ 536,890
Weighted average interest rate	**1.86%**	2.75%	2.61%

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, 2020, 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:

(dollars in thousands)	**2020**	2019	2018
Average committed funds	**$ 161,842**	$ 152,506	$ 143,910
Average rates	**1.36%**	2.38%	2.14%

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, 2020, 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, regulatory capital surplus requirements for Banks and Associations were adopted. These 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 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	2020	2019	2018	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	18.63%	19.14%	18.47%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, noncumulative perpetual preferred stock	Risk-adjusted assets	18.63%	19.14%	18.47%	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	18.92%	19.45%	18.87%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	20.39%	20.85%	20.09%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	20.86%	21.32%	20.56%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	18.67%	19.19%	18.53%	–	7.0%

* The 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.

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, 2020. 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, 166,669 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, 2,200 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 2020 are summarized in the following table.

Shares in whole numbers	Capital
Shares outstanding at December 31, 2019	173,294
Issuances	11,669
Retirements	(16,094)
Shares outstanding at December 31, 2020	168,869

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 $5.5 million in 2020, $4.5 million in 2019 and $3.8 million in 2018. The Association declared a patronage distribution of $4.5 million in 2020 to be paid in 2021.

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 2020, the Association allocated 32.80 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 $247 thousand in 2020, $277 thousand in 2019 and $285 thousand in 2018. 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.

(dollars in thousands)	**2020**	2019	2018
Pension benefit plan:			
Beginning balance	**$ (277)**	$ (285)	$ (390)
Other comprehensive income/(loss) before reclassifications	**(21)**	(47)	23
Amounts reclassified from accumulated other comprehensive income/(loss)	**51**	55	82
Net current period other comprehensive income	**30**	8	105
Year-end balance	**$ (247)**	$ (277)	$ (285)

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			
(dollars in thousands)	**2020**	2019	2018	
Pension benefit plan:				
Net actuarial loss	**$ 51**	$ 55	$ 82	Salaries and employee benefits
Total reclassifications	**$ 51**	$ 55	$ 82	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

(dollars in thousands)	**2020**	2019	2018
CoBank	**$ 2,846**	$ 2,524	$ 3,013
Farm Credit Foundations	**8**	7	6
Total	**$ 2,854**	$ 2,531	$ 3,019

Patronage distributed from CoBank was in cash and stock. The amount earned in 2020 was accrued and will be paid by CoBank in March 2021. During 2020, the Association received additional patronage distribution from CoBank of $491 thousand due to CoBank's strong capital levels and financial results. The amount earned and accrued in 2019 and 2018 was paid by CoBank in March of the following year. In 2018, the Association received a special cash patronage distribution from CoBank of $351 thousand 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 2021. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 9 – INCOME TAXES

The provision for income taxes follows.

	Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Current:			
Federal	**$ 11**	$ –	$ 14
State	**3**	–	2
Provision for income taxes	**$ 14**	$ –	$ 16

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		
(dollars in thousands)	**2020**	2019	2018
Federal tax at statutory rate	**$ 2,893**	$ 3,011	$ 3,037
State tax, net	**2**	(1)	1
Effect of non-taxable entity	**(2,633)**	(2,994)	(2,785)
Change to valuation allowance	**(63)**	(65)	35
Patronage refunds	**(179)**	(41)	(272)
Other	**(6)**	90	–
Provision for income taxes	**$ 14**	$ –	$ 16

Deferred tax assets and liabilities are comprised of the following.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Deferred income tax assets:			
Allowance for loan losses	**$ 170**	$ 217	$ 210
Interest on nonaccrual loans	**–**	28	16
Depreciation	**76**	66	63
Gross deferred tax assets	**246**	311	289
Deferred tax asset valuation allowance	**(132)**	(207)	(284)
Deferred income tax liabilities:			
Bank patronage allocation	**(108)**	(99)	–
Investment in partnership	**(6)**	(5)	(5)
Gross deferred tax liability	**(114)**	(104)	(5)
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 $132 thousand in 2020, $207 thousand in 2019 and $284 thousand in 2018. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions as of December 31, 2020, 2019 or 2018. 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 2017 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 $57.4 million at December 31, 2020. 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 $359.9 million at December 31, 2020, $333.7 million at December 31, 2019 and $274.4 million at December 31, 2018. The fair value of the plan assets was $302.5 million at December 31, 2020, $252.5 million at December 31, 2019 and $204.9 million at December 31, 2018. 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 $19.5 million in 2020, $6.8 million in 2019 and $10.8 million in 2018. The Association's allocated share of plan expenses included in salaries and employee benefits was $997 thousand in 2020, $427 thousand in 2019, and $671 thousand in 2018. Participating employers contributed $30.0 million in 2020, $20.0 million in 2019 and $20.0 million in 2018 to the plan. The Association's allocated share of these pension contributions was $1.5 million in 2020, $1.3 million in 2019, and $1.2 million in 2018. 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 2021 is $30.0 million. The Association's allocated share of these pension contributions is expected to be $1.5 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 thousand in 2020, $2 thousand in 2019 and $1 thousand in 2018. The Association made cash contributions of $10 thousand in 2020, $10 thousand in 2019 and $10 thousand in 2018.

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 $68 thousand in 2020, $79 thousand in 2019 and $101 thousand in 2018.

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

	Nonqualified Pension Benefits		
(dollars in thousands)	**2020**	2019	2018
Change in projected benefit obligation:			
Benefit obligation at the beginning of the period	**$ 706**	$ 635	$ 639
Interest cost	**17**	24	19
Actuarial loss/(gain)	**21**	47	(23)
Benefit obligation at the end of the period	**$ 744**	$ 706	$ 635
Fair value of plan assets at the end of the period	**–**	–	–
Funded status of the plan	**$ (744)**	$ (706)	$ (635)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 744**	$ 706	$ 635
Net amount recognized	**$ 744**	$ 706	$ 635

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

(dollars in thousands)	**2020**	2019	2018
Net actuarial loss	**$ (247)**	$ (277)	$ (285)
Total amount recognized in AOCI/(loss)	**$ (247)**	$ (277)	$ (285)

An estimated net actuarial loss of $43 thousand for the Pension Restoration Plan will be amortized into income over the next year.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

(dollars in thousands)	**2020**	2019	2018
Accumulated benefit obligation	**$ 744**	$ 706	$ 635
Fair value of plan assets	**$ –**	$ –	$ –

Information for pension plans with a projected benefit obligation in excess of plan assets:

(dollars in thousands)	**2020**	2019	2018
Projected benefit obligation	**$ 744**	$ 706	$ 635
Fair value of plan assets	**$ –**	$ –	$ –

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		
(dollars in thousands)	**2020**	2019	2018
Components of net periodic benefit cost			
Interest cost	**$ 17**	$ 24	$ 19
Net amortization and deferral	**51**	55	82
Net periodic benefit cost	**$ 68**	$ 79	$ 101

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

(dollars in thousands)	**2020**	2019	2018
Current year net actuarial gain/(loss)	**$ (21)**	$ (47)	$ 23
Amortization of net actuarial loss	**51**	55	82
Total recognized in other comprehensive income/(loss)	**$ 30**	$ 8	$ 105

Actuarial losses in 2020 and 2019 and actuarial gains in 2018 were primarily due to changes in plan experience, discount rate and the plan demographics.

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

	2020	2019	2018
Discount rate	**1.65%**	2.59%	4.06%
Rate of compensation increase	**5.40%**	5.40%	5.00%
Interest crediting rate	**5.00%**	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:

	2020	2019	2018
Discount rate			
Projected benefit obligation	**2.59%**	4.06%	3.35%
Service cost	**2.69%**	4.11%	3.39%
Interest cost	**2.49%**	3.93%	3.13%
Rate of compensation increase	**5.40%**	5.00%	5.00%
Interest crediting rate	**5.00%**	5.00%	5.00%

Estimated Future Benefit Payments

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

(dollars in thousands)	Pension Restoration Benefits
2021	$ –
2022	$ –
2023	$ 198
2024	$ 198
2025	$ 198
2026 – 2030	$ 198

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 $315 thousand in 2020, $297 thousand in 2019 and $268 thousand in 2018.

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 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.

(dollars in thousands)	**2020**	2019	2018
Beginning balance	**$ 30,602**	$ 28,465	$ 28,352
New loans	**65,042**	57,486	48,530
Repayments	**(66,585)**	(53,935)	(48,679)
Reclassifications*	**14,296**	(1,414)	262
Ending balance	**$ 43,355**	$ 30,602	$ 28,465

* 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, 2020 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $1.7 million in 2020, $1.6 million in 2019 and $1.4 million in 2018 to AgVantis for technology services. One Association officer serves as an AgVantis' director. The Association paid $111 thousand in 2020, $105 thousand in 2019, and $101 thousand in 2018 to Foundations for human resource services and $6 thousand in 2020, and none in 2019 and 2018 to CoBank for operational services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

As of December 31, 2020, there were no enforcement actions in effect for the Association and FCA took no enforcement on the Association during the year.

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, 2020, $223.2 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 these commitments, 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, 2020, $2.5 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2021 to 2039. The maximum potential amount of future payments the Association is required to make under the guarantees is $2.5 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**
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets held in nonqualified benefits trusts				
2020	**$ 682**	**$ –**	**$ –**	**$ 682**
2019	$ 736	$ –	$ –	$ 736
2018	$ 903	$ –	$ –	$ 903

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:

(dollars in thousands)	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Loan Assets				
2020	**$ –**	**$ –**	**$ –**	**$ –**
2019	$ –	$ –	$ –	$ –
2018	$ –	$ –	$ 232	$ 232

The Association has no liabilities measured at fair value on a non-recurring basis for any of the periods presented. During the three years presented, the Association recorded no transfers in or out of Level 3 and no purchases or issuances.

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. 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.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2020, 2019, and 2018, follow.

	2020				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 4,920**	**$ 4,952**	**$ 5,074**	**$ 5,140**	**$ 20,086**
Provision for credit losses/(Credit loss reversal)	**216**	**(9)**	**(218)**	**(30)**	**(41)**
Noninterest expense, net	**1,458**	**1,483**	**1,725**	**1,699**	**6,365**
Net income	**$ 3,246**	**$ 3,478**	**$ 3,567**	**$ 3,471**	**$ 13,762**

	2019				
(dollars in thousands)	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

(dollars in thousands)	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

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 9, 2021 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.

<u>SELECTED FINANCIAL DATA</u>

The selected financial data for the five years ended December 31, 2020, 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.

<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>

"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

Rebecca K.W. Lenz	Chair, representing the South Region. Three-year term expires in 2022. Mrs. Lenz serves on the Compensation Committee and is a member of the Executive Committee. She also serves on the Association District Leadership Committee and is the District Farm Credit Council Representative. Mrs. Lenz has been a farmer/rancher for five years or more with principle enterprises of corn, potatoes, dry edible beans, wheat, and a cow/calf and backgrounding operation and also raises a registered Charolais herd. She is a partner and has a controlling interest in Six by Two Land Company, LLLP and Six by Two Livestock, LLC and serves as Controller for several family farm entities in addition to being a certified Annie's Project trainer. Mrs. Lenz holds a B.S. from Colorado School of Mines.
Bruce W. Kokes	Vice Chair, representing the Northeast Region. Three-year term expires in 2021. Mr. Kokes is a member of the Executive Committee and serves on the Policy Review Committee. He has been a farmer/rancher for five years or more with principle enterprises of wheat, millet, and hay and runs a cow/calf operation. He has a controlling interest in Bruce Kokes Farm and MMB Partnership.
Michael J. Brownell	Outside Appointed Director. Three-year term expires in 2022. Mr. Brownell is from Fleming, Colorado and serves on the Audit and Compensation Committees. He is a retired Professor who taught Agriculture Business Management and Agronomy for over 22 years at Northeast Junior College. Mr. Brownell has been a farmer for five years or more with principle enterprises of wheat and millet. He is a partner and has a controlling interest in NCS Management Systems and Ace Pilot Car Service, LLC. He and his wife, Laural own Sterling Trophy Shop. Mr. Brownell holds a B.S. from Colorado State University.
Andrew E. Gerken	Director, representing the Northwest Region. Three-year term expires in 2023. Mr. Gerken serves on the Compensation and Policy Review Committees. He has been a farmer/rancher for five years or more with principle enterprises of corn, alfalfa, and a cow/calf operation. Mr. Gerken holds certificates in Ag Business Management and Ag Financial Analysis from Morgan Community College.
Ryan W. Godsey	Director, representing the South Region. Three-year term expires in 2021. Mr. Godsey serves on the Compensation Committee and is Chair of the Policy Review Committee. He has been a farmer/rancher for five years or more with principle enterprises of corn, beans, wheat and cattle in a family operation with his parents. He is an officer and has controlling interest in R & S Godsey Farms, Inc. and Roots & Boots Cattle Company LLC. Mr. Godsey holds a B.S. from Colorado State University.
Lyndsey D. Graves	Outside Appointed Director and Financial Expert. Three-year term expires in 2021. Mrs. Graves is from northeast Colorado and resides in Kearney, NE. She serves as Chair of the Audit Committee and serves on the Compensation Committee. Mrs. Graves is a CPA providing tax, business, and estate consulting services to clients in Nebraska and northeast Colorado under business entities Just Numbers, LLC and Graves Consulting, LLC. Mrs. Graves graduated Summa Cum Laude from UNC/Monfort College of Business in Greeley and received her Master's degree in Taxation from DU/Sturm College of Law.
Allen R. Hutt	Director, representing the Northwest Region. Three-year term expires in 2022. Mr. Hutt serves on the Compensation and Policy Review Committees. He has been a

	farmer/rancher for five years or more with principle enterprises of irrigated corn, wheat, hay, millet and a cow/calf operation. He also operates a custom hay business. Mr. Hutt and his wife, Melinda own Country Creations, an embroidery and screen printing business. He holds a B.S. from Colorado State University.
Randall W. Kirkwood	Director, representing the Northeast Region. Three-year term expires in 2023. Mr. Kirkwood serves on the Audit and Compensation Committees. He has been a farmer/rancher for five years or more with principle enterprises of dryland wheat and a cow/calf operation. Mr. Kirkwood has a controlling interest in Kirkwood Farm and JRRD, LLC. He serves as the Fleming Jr. High and High School Girls' Basketball Coach. Mr. Kirkwood holds an A.A.S. from Northeastern Junior College.
Mark A. Oestman	Director, representing the South Region. Three-year term expires in 2023. Mr. Oestman serves as the Vice Chairman of the Compensation Committee and Secretary of the Policy Review Committee. He has been a farmer/rancher for five years or more in an operation with his father with principle enterprises of corn, pinto beans, white wheat, alfalfa, and cattle. He is a partner and has a controlling interest in Oestman Farms, LLC and BOO Farms, LLC. Mr. Oestman holds a B.S. from Colorado State University.
Lisa E. Shinn	Director, representing the Northwest Region. Three-year term expires in 2021. Mrs. Shinn serves on the Audit Committee and is Chair of the Compensation Committee. She has been a farmer/rancher for five years or more and is a partner and has a controlling interest in Lyle & Viola Myers Trust and CTL Farm & Ranch, LLC, a family farming operation with her sisters that is leased to a local farmer. Mrs. Shinn is a retired Professor at Northeastern Junior College where she taught Agriculture Business Management for 25 years. She provides private accounting and consulting services in northeast Colorado. Mrs. Shinn holds an M.B.A. from Regis University.
Leo J. Stieb, Jr.	Director, representing the Northeast Region. Three-year term expiring in 2022. Mr. Stieb serves on the Compensation and Policy Review Committees. He has been a farmer/rancher for five years or more with principle enterprises of corn, alfalfa, soybeans, sorghum, wheat, and a cow/calf and feedlot operation. He is a partner and has a controlling interest in Stieb Bros. Inc., 4-S Land Company, LLP, and Stieb Land Company, LLP. Mr. Stieb holds an A.A.S. from Northeastern Junior College.
Wayne A. Midcap	Director, representing the Northwest Region. Mr. Midcap served a three-year term which expired in 2020.

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 chair of the Board of Directors was compensated for services on a per diem basis at the rate of $700 per day. The chair of the Audit Committee was compensated for Audit Committee services on a per diem basis at the rate of $800 per day. During 2020, mileage was reimbursed at a rate of $0.575 per mile while on official business. The Compensation Committee meetings and some Audit 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.

	Number of Days Served at		Compensation for			Total Compensation Paid During 2020
Name	Board Meetings	Other Official Activities	Board Meetings	Policy Review	Audit	
Rebecca K.W. Lenz	10.0	3.0	$ 7,150	$ –	$ 1,100	$ 8,250
Bruce W. Kokes	8.5	4.0	6,325	550	–	6,875
Michael J. Brownell	10.0	2.0	5,500	–	1,100	6,600
Andrew E. Gerken	7.0	3.0	4,400	1,100	–	5,500
Ryan W. Godsey	8.0	5.0	6,050	1,100	–	7,150
Lyndsey D. Graves	10.0	8.0	8,600	–	2,200	10,800
Allen R. Hutt	10.0	2.0	5,500	1,100	–	6,600
Randall W. Kirkwood	10.0	4.5	5,700	–	2,200	7,900
Mark A. Oestman	9.0	2.0	4,950	1,100	–	6,050
Lisa E. Shinn	10.0	4.5	5,850	–	2,200	8,050
Leo J. Stieb, Jr.	10.0	2.0	5,500	1,100	–	6,600
Wayne A. Midcap	3.0	3.0	4,200	–	–	4,200
Total Compensation			$ 69,725	$ 6,050	$ 8,800	$ 84,575

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 $21,690 in 2020, $90,980 in 2019 and $84,097 in 2018. There was no non-cash compensation paid to directors in 2020.

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

		Annual				
President and CEO[2]	Year	Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	Total
Michael Grauberger	2020	$ 258,826	$ 80,000	$ 601,776	$ 5,050	$ 945,652
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

		Annual				
Aggregate Number of Officers/Highly Compensated Individuals (excluding CEO)[2]	Year	Salary	Incentive compensation[3]	Deferred/ Perquisites[4]	Other[5]	Total[1]
7	2020	$ 1,043,269	$ 255,743	$ 1,068,301	$ 14,246	$ 2,381,559
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

1. Disclosure of the total compensation paid during 2020 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 2020 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 2020 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 2020, the Association's employer matching contribution to the CEO's account in the 401(k) Plan was $13,165 and there was no contribution to the CEO's account in the NQDC Plan. Also included is an increase in Pension value of $588,611 for the CEO. For 2020, the Association's employer matching and non-elective contributions for the other Senior Officers' accounts in the 401(k) Plan were $70,931 and there were $3,625 contributions to their accounts in the NQDC Plan. Also included is an increase in the pension value of $933,745 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, 2020 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	36.23	$ 2,731,683	$ –

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	33.43	$ 6,222,001	$ –
1	Nonqualified Pension	36.12	$ 75,353	$ –

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.

Credit and Services to Young, Beginning and Small Farmers, Ranchers and Producers or Harvesters of Aquatic Products

The Association's information required to be disclosed in this section is incorporated herein by reference from the "Young, Beginning and Small Farmers and Ranchers Program" section of the Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report to shareholders.

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, 2021 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 2020 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.