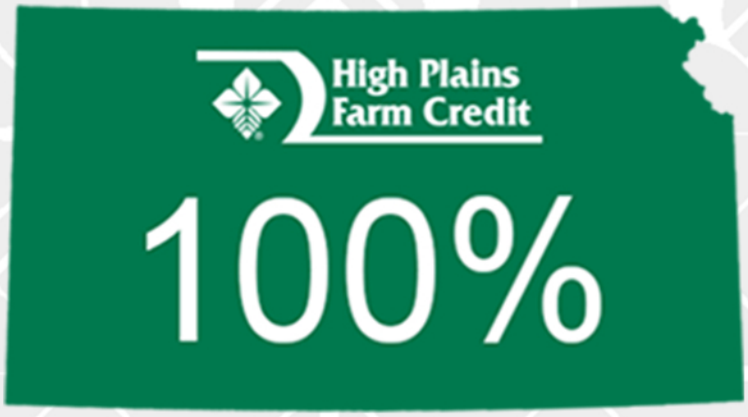
High Plains Farm Credit, ACA

2019 ANNUAL REPORT

STRONG ON AG LENDING

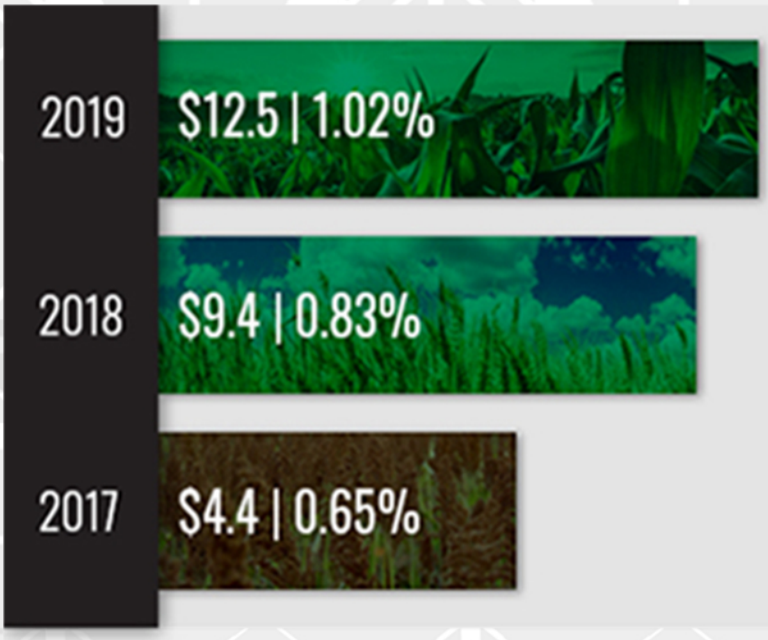
Our Mission

Since 1916, we have been fully devoted to agriculture financing. With over 50 employees, we serve 1,700 farmers, ranchers and agribusinesses with nearly $1.5 billion of loan volume serviced. We are 100% committed to our territory and we understand the impact agriculture and Farm Credit have in our rural communities. Our focus is on helping farmers & ranchers achieve success here in Kansas.



We Share Our Success

$ In Millions | Percentage Paid



***Record patronage in 2019**

As a financial cooperative, the money we make contributes to our financial strength, helps finance customer growth, supports customers in challenging times and helps grow future generations in agriculture. What's left is returned as cash patronage dividends that benefit our rural communities. Since 2010, we've returned more than $57 MILLION in cash patronage back to our farmers & ranchers.

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

We are pleased to present the High Plains Farm Credit 2019 Annual Report. We have put our scale and financial soundness to good use this past year. Even through agriculture's challenging times, High Plains Farm Credit remains a dependable source of credit and a trusted resource for Kansas' rural communities.

The strong results of our cooperative are evident in our earnings, capital position, patronage and competitive interest rates. 2019 net income was $26.7 million, which is a 10.6% return on shareholders' equity. Credit quality remained solid at 96.1% of total loans. High Plains Farm Credit is well-positioned for continued long-term success.

Our 2019 financial results support our mission of serving agriculture through every business cycle. This past year marked the largest-ever cash patronage declared by your member-elected Board of Directors. The record $12.5 million cash patronage will return 47% of 2019 earnings and projects to reduce the effective interest paid on eligible loans by more than 1%. In addition to offering a competitive interest rate up front, the patronage payment is an added value that High Plains provides our member-owners.

The future will not be without its uncertainties and setbacks, however we are prepared to face the challenges with you. While some operations are more challenged than others by lower prices, everyone in the industry was impacted by 2019 weather events. As we work with our stockholders through this extended downturn in agricultural commodity markets, we remain impressed with the tenacity, determination and resilience they have expressed. High Plains Farm Credit is working harder than ever to utilize our lending and agriculture expertise to structure loans to help you today and into the future.

As a member of the national Farm Credit System, High Plains' vision is to "be the preferred source of agricultural financing". We share your passion for agriculture and strive to fulfill our vision every day. High Plains Farm Credit is committed to being a dependable source of credit and a proud, trusted partner in your operation. We appreciate your business and will continually strive to earn your business in the future. Thank you for choosing High Plains Farm Credit and for contributing to our success. We look forward to serving you in 2020 and beyond.

Sincerely,

Craig Gebhard
Chairman – Board of Directors

Kevin Swayne
President and Chief Executive Officer

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2019	2018	2017	2016	2015
Statement of Condition Data					
Loans	**$ 1,239,480**	$ 1,157,565	$ 1,056,849	$ 710,632	$ 740,609
Less allowance for loan losses	**3,026**	2,831	2,449	1,424	1,093
Net loans	**1,236,454**	1,154,734	1,054,400	709,208	739,516
Investment in dealer notes	**-**	-	1,109	1,224	1,271
Investment in CoBank, ACB	**43,084**	40,373	38,477	26,000	24,995
Other assets	**62,451**	48,029	42,843	24,043	23,038
Total assets	**$ 1,341,989**	$ 1,243,136	$ 1,136,829	$ 760,475	$ 788,820
Obligations with maturities of one year or less	**$ 39,647**	$ 27,537	$ 17,909	$ 11,551	$ 9,763
Obligations with maturities longer than one year	**1,049,223**	977,243	900,300	612,002	654,189
Reserve for unfunded commitments	**547**	442	434	848	351
Total liabilities	**1,089,417**	1,005,222	918,643	624,401	664,303
Protected borrower stock	**-**	-	-	1	1
Preferred stock	**5,672**	5,050	3,453	3,494	3,274
Capital stock	**1,744**	1,794	1,818	1,148	1,144
Additional paid-in capital	**69,380**	69,380	69,380	-	-
Unallocated retained earnings	**175,973**	161,986	143,949	131,832	120,542
Accumulated other comprehensive income/(loss)	**(197)**	(296)	(414)	(401)	(444)
Total shareholders' equity	**252,572**	237,914	218,186	136,074	124,517
Total liabilities and shareholders' equity	**$ 1,341,989**	$ 1,243,136	$ 1,136,829	$ 760,475	$ 788,820

	For the Year Ended December 31				
	2019	2018	2017	2016	2015
Statement of Income/(Expense) Data					
Net interest income	**$ 32,209**	$ 30,505	$ 21,297	$ 18,577	$ 18,335
Patronage distribution from Farm Credit institutions	**6,207**	7,503	5,764	5,445	5,017
Provision for credit losses	**(308)**	(401)	(620)	(832)	(28)
Noninterest expense, net	**(11,288)**	(10,147)	(10,018)	(8,513)	(6,794)
(Provision for)/Benefit from income taxes	**(132)**	133	181	(309)	(1,349)
Net income	**$ 26,688**	$ 27,593	$ 16,604	$ 14,368	$ 15,181
Comprehensive income	**$ 26,787**	$ 27,711	$ 16,591	$ 14,411	$ 15,060
Key Financial Ratios					
For the Year					
Return on average assets	**2.13%**	2.35%	1.95%	1.89%	2.06%
Return on average shareholders' equity	**10.57%**	11.82%	10.30%	10.81%	12.68%
Net interest income as a percentage of average earning assets	**2.74%**	2.76%	2.66%	2.60%	2.63%
Net charge-offs as a percentage of average net loans	**<0.01%**	<0.01%	<0.01%	<0.01%	<0.01%
At Year End					
Shareholders' equity as a percentage of total assets	**18.82%**	19.14%	19.19%	17.89%	15.79%
Debt as a ratio to shareholders' equity	**4.31:1**	4.23:1	4.21:1	4.59:1	5.34:1
Allowance for loan losses as a percentage of loans and dealer notes	**0.24%**	0.24%	0.23%	0.20%	0.15%
Common equity tier 1 (CET1) capital ratio	**16.02%**	16.05%	15.43%	N/A	N/A
Tier 1 capital ratio	**16.02%**	16.05%	15.43%	N/A	N/A
Total regulatory capital ratio	**16.28%**	16.31%	15.70%	N/A	N/A
Tier 1 leverage ratio	**16.72%**	16.65%	15.97%	N/A	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**18.85%**	18.79%	18.20%	N/A	N/A
Permanent capital ratio	**16.49%**	16.54%	15.74%	15.16%	13.53%
Total surplus ratio	**N/A**	N/A	N/A	14.54%	12.99%
Core surplus ratio	**N/A**	N/A	N/A	14.54%	12.99%
Net Income Distribution					
Cash patronage distributions paid	**$ 9,400**	$ 4,400	$ 3,000	$ 2,300	$ 2,002
Cash patronage declared	**$ 12,500**	$ 9,400	$ 4,400	$ 3,000	$ 2,302
Preferred stock dividends declared	**$ 201**	$ 156	$ 87	$ 78	$ 53

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

- 2019 Highlights
- Our Structure
- Merger with Farm Credit of Ness City, FLCA
- 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.HighPlainsFarmCredit.com, or upon request. We are located at 605 Main, Larned, Kansas 67550-0067 or may be contacted by calling (620) 285-6978.

2019 HIGHLIGHTS

- Loan volume increased $81.9 million dollars, or 7.1%.
- Net income was $26.7 million.
- In December, the Board approved a record $12.5 million cash patronage distribution to stockholders.
- Total shareholders' equity increased by $14.7 million to $252.6 million after recording the liability for the $12.5 million cash patronage distribution to stockholders.

OUR STRUCTURE

High Plains Farm Credit, ACA is 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 ensure a safe, sound, and dependable source of credit and related services for all creditworthy and eligible persons in agriculture and rural America 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.

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region from the Nebraska border on the north to the Oklahoma border on the south extending through Smith, Osborne, Russell, Barton, Stafford, Pratt and Barber counties on the eastern edge and Norton, Sheridan, Gove, Lane, Hodgeman, Ford and Meade counties on the western edge. 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, leasing through Farm Credit Leasing, a preferred stock program 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 605 Main, Larned, Kansas 67550-0067 or by calling (620) 285-6978. Annual reports are available within 75 days of the year-end and quarterly reports are available within 40 days of the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our prior service agreement expired on December 31, 2018. We entered into a new agreement effective January 1, 2019, that was scheduled to expire on December 31, 2021. However, a revised service agreement was signed effective January 1, 2020 and will expire on December 31, 2022. We are a shareholder in AgVantis, along with other AgVantis customers. Farm Credit Foundations, a human resource shared service provider for a number of Farm Credit institutions, provides administration for our payroll and benefits, and may provide related human resource offerings.

The cooperative structure of the System allows us to achieve economies of scale that could not be achieved by each institution individually. Our mission is to meet our stockholders' financial needs at the best value while maintaining excellent customer service and financial stability. This, along with our vision to be the preferred source of agricultural financing, provides our staff guidance and aids in our drive to provide exceptional service and value to our stockholders.

MERGER WITH FARM CREDIT OF NESS CITY, FLCA

On October 4, 2016, the Farm Credit of Ness City, FLCA (Ness City) Board of Directors invited High Plains Farm Credit, ACA (High Plains) to a meeting to discuss a potential strategic partnership. As a result of the meeting, High Plains and Ness City agreed to enter into a joint management agreement effective January 1, 2017, with the intent to merge October 1, 2017. In March 2017, a merger application was submitted to the FCA. On June 15, 2017, the FCA granted preliminary approval of the merger, subject to certain conditions. On August 9, 2017, Ness City and High Plains announced that their voting stockholders approved the proposed plan of merger between the two associations. Final approval from FCA was received on September 29, 2017. The merger was effective October 1, 2017. The merger united two associations, which created a strong financial institution of greater capital, capacity, and human resources to serve agriculture and rural Kansas. The merged association conducts business as High Plains Farm Credit, ACA with headquarters located in Larned, Kansas. Kevin Swayne was named as President and Chief Executive Officer of the merged association. For purposes of this management discussion and analysis, unless otherwise noted, references to "the Association" represents High Plains Farm Credit, ACA from a current, historic and future perspective.

Beginning October 1, 2017, our financial position, results of operations, cash flows and related metrics include the effects of the merger with Ness City. Prior year results do not reflect the impact of the merger. Upon the closing of the merger, we acquired assets at fair value of $343.3 million and liabilities at fair value of $273.2 million.

ECONOMIC OVERVIEW

Our financial condition can be directly impacted by factors affecting agricultural, rural, and general economies. These factors also impact the ability of farmers and ranchers to repay loans. Factors include but are not limited to the following:

- commodity prices;
- weather and disease that impact the production of agricultural products;
- changes in fuel and fertilizer costs, rent and other production expenses;
- significant changes in land values;
- water availability, cost and environmental impacts;
- availability and cost of agricultural workers;
- the impact of safety nets, including government programs and multi-peril insurance;
- changes in the United State government support of the agricultural sector, including expenditures on agricultural conservation programs and biofuels;
- the relationship of demand relative to supply of agricultural commodities produced, including access to domestic and foreign markets;
- the demand for agricultural commodities for alternative uses, including ethanol and other biofuel production and the resulting impact on commodity prices;

- major international events, changes in foreign economies, and trade barriers which affect the demand for agricultural products sold or the cost of production as well as changes in the relative value of the U.S. dollar; and,
- changes in the general economy that can affect interest rates and/or availability of off-farm employment for some farm households.

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

U.S. Agricultural Overview

The December 2019 United States Department of Agriculture (USDA) forecast estimates 2019 farmers' net cash income (a measure of the cash income after payment of business expenses) at $120.4 billion, up $16.2 billion from 2018. The increase in 2019 net cash income was primarily due to a $10 billion increase in Federal farm program payments and $5.2 billion increase in farm-related income (e.g., custom hire work) while total production expenses remained relatively flat. Average prices received by farmers in December of 2019 compared to average prices in December of prior years are reflected in the following chart based on USDA data:

Average Commodity Prices

Commodity	**December 2019**	December 2018	December 2017	December 2016	December 2015
Wheat	$ 4.64	$ 5.28	$ 4.51	$ 3.91	$ 4.75
Corn	$ 3.71	$ 3.54	$ 3.23	$ 3.33	$ 3.65
Soybeans	$ 8.70	$ 8.56	$ 9.30	$ 9.64	$ 8.76
Sorghum	$ 3.16	$ 3.18	$ 3.07	$ 2.64	$ 3.23
Hay	$ 158.00	$ 166.00	$ 136.00	$ 126.00	$ 139.00
Cotton	$ 0.62	$ 0.73	$ 0.69	$ 0.68	$ 0.61
Beef Cattle	$ 118.00	$ 117.00	$ 118.00	$ 111.00	$ 122.00

The USDA's February 2020 outlook for the farm economy, as a whole, forecasts 2020 farmers' net cash income to fall to $109.6 billion, a $10.8 billion decrease from 2019 estimates. The projected decrease in farmers' net cash income from 2019 to 2020 is primarily due to the forecasted declines in Federal farm program payments ($8.7 billion) and farm-related income ($2.8 billion). These declines taken in consideration with a projected $10.4 billion increase in production expenses are forecast to be offset by a $10.1 billion increase in cash receipts from the sale of crops and animals/animal products.

Association Agricultural Overview

Producers experienced less than normal profitability in 2019 as lower commodity prices again limited net income. Grain producers experienced tight to negative margins even with some having better than average yields, as prices remained low. Market Facilitation Payments (MFP) helped to mitigate low commodity prices and even helped some producers show a profit. The Phase 1 trade deal with China was signed shortly after the new year, with China committing to purchase $80 billion worth of U.S. ag commodities over the next two years. While this doesn't effectively end the 18-month trade war, it does establish a truce between the two countries. Another positive for the United States concerning trade is the signing of the United States Mexico Canada Agreement (USMCA) to replace the North American Free Trade Agreement (NAFTA) with dairy, eggs and poultry being the most impacted. Winter wheat is 79% in fair condition or better with 2020 being the second lowest planted acres on record at 30.8 million acres planted for harvest. With fewer planted acres, higher usage, and greater export potential, the USDA reports lower ending wheat stocks in 2020. Cattle prices rallied at year-end after falling 17% in the middle of 2019. The current interest rate environment is favorable after three rate decreases from the Federal Reserve in 2019 and the Fed Funds rate ranging from 1.50% - 1.75%. The Federal Reserve comments state that they will leave rates unchanged from current levels in 2020.

Cash Grains: Growing conditions remained good throughout the territory with timely rains and in some cases, excessive rains causing a good number of Preventative Plant claims on spring acres. Producers who could get spring

crops planted experienced better than average yields which somewhat offset the lower commodity prices. Kansas farmers planted the same number of acres in 2020, 6.9 million, as were planted in 2019. Producers continue to evaluate pricing opportunities, crop rotations, water resources, and crop insurance programs to deal with varying growing options. Grain stocks have declined and with projected stable supplies, higher feed and residual use, grain stocks should continue to decrease. The decrease in grain stocks coupled with improved exports should result in better prices for grain producers.

Hay: A dry fall and mild winter may present some challenges for grazing in the spring and summer of 2020. There is strong demand for better quality hay with low quality grinding hay still plentiful. Alfalfa production is primarily being utilized by the dairy and feedlot industry.

Cattle: While grain producers again faced profitability challenges, some cattlemen were able to squeeze out profits depending on when they were able to market their cattle. Most producers are utilizing a risk protection program to limit risk and protect their margins after hard lessons learned during the 2015/2016 cattle market crash. With cow and heifer slaughter up 2.9% and 7.3% over 2018, it seems reasonable that the nation's cowherd has begun to contract in 2019.

Real Estate: Real estate market activity held steady across all types and classes of properties throughout the area in 2019. Most purchasers continue to be from area producers looking to expand their operations with some out of territory buyers entering the market again. Market prices are mixed dependent on area, soil type, and quality. Overall, most types and classes declined in price slightly from 2018, with pasture being the exception, seeing an increase of 11%. The decline in profitability has been the major market factor in the decline in land values.

LOAN PORTFOLIO

Total loans outstanding were $1.24 billion at December 31, 2019, an increase of $81.9 million, or 7.1%, from loans at December 31, 2018 of $1.16 billion, and an increase of $182.6 million, or 17.3%, from loans at December 31, 2017 of $1.06 billion. The increase in loans was primarily due to increased loan demand from existing and new borrowers, as well as opportunities to increase purchased participation volume to diversify our portfolio. The types of loans outstanding at December 31 are reflected in the following table.

	2019		2018		2017	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage	**$ 741,527**	**59.8%**	$ 734,857	63.5%	$ 730,288	69.1%
Production and intermediate-term	**389,760**	**31.5%**	335,246	29.0%	281,269	26.6%
Agribusiness	**101,566**	**8.2%**	83,712	7.2%	41,055	3.9%
Rural infrastructure	**6,302**	**0.5%**	3,246	0.3%	3,477	0.3%
Rural residential real estate	**325**	**–**	504	–	760	0.1%
Total	**$1,239,480**	**100.0%**	$1,157,565	100.0%	$1,056,849	100.0%

Real estate mortgage loans outstanding increased 0.9% to $741.5 million compared with $734.9 million at year-end 2018, primarily due to new loan originations and increased purchased participation activity. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 30 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 16.3% to $389.8 million, compared with 2018 loans of $335.2 million, primarily due to new loans to both existing and new borrowers. There was also an increase in opportunities to diversify the Association portfolio with purchased participation volume. 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.

An increase was noted in the agribusiness sector where the majority of loan volume was due to loan participations. The increase in the rural infrastructure sector was 100% attributable to loan participations. The decrease in rural residential real estate loan volume is a result of loan pay-down activity.

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 and lease participations from other System and non-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 and non-System entities to reduce risk and comply with lending limits we have established.

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

(dollars in thousands)	**2019**	2018	2017
Participations purchased	**$ 211,390**	$ 129,514	$ 74,251
Participations sold	**$ 319,720**	$ 312,128	$ 342,252

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” categories in the following table.

	2019	2018	2017
Barber	**2.11%**	1.99%	2.14%
Barton	**3.65%**	3.57%	3.29%
Clark	**0.05%**	0.05%	0.06%
Comanche	**0.03%**	0.04%	0.06%
Edwards	**3.45%**	3.84%	3.35%
Ellis	**2.63%**	2.78%	3.27%
Ford	**4.17%**	3.87%	3.87%
Gove	**3.58%**	3.73%	4.34%
Graham	**1.17%**	1.34%	1.47%
Hodgeman	**4.32%**	4.49%	5.00%
Kiowa	**0.98%**	1.21%	1.08%
Lane	**2.77%**	4.28%	5.18%
Meade	**0.94%**	0.98%	0.88%
Ness	**2.04%**	2.26%	2.65%
Norton	**1.39%**	1.58%	1.62%
Osborne	**0.84%**	0.90%	1.10%
Pawnee	**2.11%**	2.22%	2.74%
Phillips	**4.25%**	4.42%	4.29%
Pratt	**1.17%**	1.47%	1.73%
Rooks	**1.80%**	2.00%	2.19%
Rush	**0.80%**	0.86%	0.91%
Russell	**1.32%**	1.44%	1.64%
Sheridan	**3.27%**	3.76%	4.27%
Smith	**2.26%**	2.51%	2.57%
Stafford	**2.20%**	2.30%	2.46%
Trego	**1.21%**	1.52%	1.64%
Other Kansas	**29.16%**	30.11%	27.79%
Other	**16.33%**	10.48%	8.41%
Total	**100.00%**	100.00%	100.00%

We are party to a Territorial Approval Agreement (Agreement) with other associations in the state of Kansas. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association’s territory regardless of a borrower’s place of residence, location of operations, location of loan security or location of headquarters. This Agreement can be terminated upon the earliest of the following:

1) the time when all but one association has withdrawn as a party to the Agreement; or
2) when requested by FCA.

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.

SIC Category	**2019**	2018	2017
Cash grains	**42.17%**	47.43%	51.50%
Livestock	**43.79%**	40.44%	39.30%
Ag services	**10.27%**	8.66%	5.47%
Cow/calf	**2.34%**	2.60%	2.63%
Other	**1.43%**	0.87%	1.10%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of cash grain producers, livestock producers, and ag service providers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral, which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers, which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our outstanding loan volume at December 31, 2019, approximately 57% consists of borrowers with income not solely from agricultural sources, a decrease from 59% for 2018, and 60% for 2017.

The loans outstanding at December 31, 2019 for loans $250 thousand or less accounted for 18.1% of loan volume and 71.1% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

	2019		2018		2017	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 224,687**	**2,571**	$ 232,856	2,599	$ 236,250	2,654
$251 - $500	**188,550**	**541**	190,827	545	197,876	569
$501 - $1,000	**189,648**	**270**	190,312	269	174,722	251
$1,001 - $5,000	**425,890**	**208**	399,944	198	356,984	185
$5,001 - $25,000	**210,705**	**24**	143,626	19	91,017	13
Total	**$1,239,480**	**3,614**	$1,157,565	3,630	$1,056,849	3,672

Approximately 21% of our loans outstanding is attributable to 20 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.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac credit enhancements was $19.3 million at December 31, 2019, $18.7 million at December 31, 2018, and $18.0 million at December 31, 2017. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $72 thousand in 2019, $74 thousand in 2018, and $64 thousand in 2017. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio, and we pay commitment fees to Farmer Mac for the right to put a loan designated in these agreements to Farmer Mac at par in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.FarmerMac.com.

Credit guarantees with government agencies of $8.6 million at year-end 2019, $8.7 million at year-end 2018 and $9.8 million at year-end 2017 were outstanding. Farm Service Agency (FSA) loan guarantees are utilized when appropriate to manage credit risk. Typically, we have a 90% guarantee from the FSA which would insure that our loss on a

guaranteed loan would not exceed 10% of the original loan balance in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured.

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 and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. We may also participate in standby letters of credit to satisfy the financing needs of our borrowers. These standby letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2019.

(dollars in thousands)	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Over 5 years**	**Total**
Commitments to extend credit	$ 95,400	$ 133,186	$ 23,710	$ 25,249	$ 277,545
Standby letters of credit	–	214	–	–	214
Commercial letters of credit	–	–	16	–	16
Total commitments	$ 95,400	$ 133,400	$ 23,726	$ 25,249	$ 277,775

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

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. We make a concerted and cooperative effort to finance YBS farmers, ranchers, and producers, or harvesters of aquatic products to the fullest extent of their creditworthiness. We believe that new business development and new customers are critical to our future, therefore the promotion of services to the farmer segment is important to the future of the organization. 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.

		December 31		
	USDA	**2019**	2018	2017
Young	11.48%	**17.77%**	17.84%	17.62%
Beginning	25.33%	**20.39%**	20.95%	20.36%
Small	78.40%	**45.12%**	44.18%	44.60%

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 market our lending territory for YBS Borrowers through radio advertising, 4-H and FFA sponsorships, scholarships, and contacts with the Ag-Departments at area colleges and high schools. We also participate in sponsoring statewide activities in conjunction with other Farm Credit offices including Women Managing the Farm Seminars, 4-H Key Awards, Kansas Livestock Association (KLA) Field Days, the KLA Breakfast at their annual meeting, and Fort Hays State University Scholarships. We are also supporters of Kansas Ag and Rural Leadership (KARL) training, Kansas State University (K-State) Management, Analysis and Strategic Thinking (MAST-K-State) training, Ag in the Classroom, Fort Hays State University and Kansas State University. We have provided support to the Kansas Young Farmers and Leaders Conference, Public Square Communities, Kansas High School Rodeo, Farm In Transition Seminars, and the Kansas Society of Farm Managers and Rural Appraisers.

Finally, we offer special interest rates, terms and condition incentives on our lending products to assist qualifying YBS borrowers. To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within the Association's and the YBS borrower's risk-bearing capacity, we utilize loan underwriting standards, loan guarantee programs, fee waiver programs, and other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, marketing meetings and insurance services for YBS farmers and ranchers.

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.

- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory; and,
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory.

We strive to have 35% of our portfolio fall into the YBS category. The total number of YBS loans compared to total loans is 53.59% for 2019, 54.92% for 2018 and 56.03% for 2017. The following table represents the total number of loans in our portfolio by YBS category.

Total Number of Loans	**2019**	2018	2017
Young	**645**	649	649
Beginning	**763**	762	750
Small	**1,571**	1,609	1,643

The number of new loans made to YBS farmers and ranchers compared to our YBS goals are presented in the following table:

New Loans	**Number of Loans**	Percent of Total	2019 Goals Percent of Total
Young	**106**	14.21%	15%
Beginning	**137**	18.36%	15%
Small	**262**	35.12%	35%

High Risk Assets

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

(dollars in thousands)	**2019**	2018	2017
Nonaccrual loans:			
Real estate mortgage	**$ 4,696**	$ 1,896	$ 1,475
Production and intermediate-term	**243**	274	38
Total nonaccrual loans	**4,939**	2,170	1,513
Total high risk assets	**$ 4,939**	$ 2,170	$ 1,513
Nonaccrual loans to total loans	**0.40%**	0.19%	0.14%
High-risk assets to total loans	**0.40%**	0.19%	0.14%
High-risk assets to total shareholders' equity	**1.96%**	0.91%	0.69%

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 increased $2.8 million, or 127.6%, to $4.9 million at December 31, 2019 compared with year-end 2018. Contributing to the increase in our high risk assets were loans to borrowers adversely impacted by commodity price volatility, higher farm input costs in the current agricultural environment and borrowers who were adversely impacted due to stress in the general economy.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume increased $2.8 million compared with December 31, 2018 due to the continuation of stress in the ag economy. At December 31, 2019, 21 loans were nonaccrual. Seven of these loans belong to one borrower and account for approximately 54% of total nonaccrual volume. The following table provides additional information on nonaccrual loans as of December 31 for the last three fiscal years.

(dollars in thousands)	**2019**	2018	2017
Nonaccrual loans current as to principal and interest	**$ 2,147**	$ 2,124	$ 379
Cash basis nonaccrual loans	**$ 253**	$ 278	$ 297
Restructured loan in nonaccrual status	**$ 536**	$ 607	$ –

Restructured loan volume at year-end 2019 and year-end 2018 consisted of two nonaccrual loans formally restructured in 2018. The restructure of these loans were part of court-ordered bankruptcy plans.

High-risk asset volume is anticipated to increase in the future due to adverse conditions in the agricultural economy.

Credit Quality

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

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

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

	2019	2018	2017
Acceptable	**89.89%**	90.15%	93.63%
OAEM	**6.17%**	6.58%	4.17%
Substandard	**3.94%**	3.27%	2.20%
Total	**100.00%**	100.00%	100.00%

Recent economic conditions have created challenges for some borrowers and our credit quality has declined. Loans classified as Acceptable and OAEM were 96.06% at December 31, 2019, 96.73% at December 31, 2018 and 97.80% at December 31, 2017. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to continued weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased and remained at a low level of 0.23% at December 31, 2019, compared with 0.03% at December 31, 2018 and 0.18% at December 31, 2017.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers

factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31 for the last three fiscal years.

(dollars in thousands)	**2019**	2018	2017
Balance at beginning of year	**$ 2,831**	$ 2,449	$ 1,424
Charge-offs:			
Real estate mortgage	**(4)**	(23)	(5)
Production and intermediate-term	**(4)**	(4)	(4)
Total charge-offs	**(8)**	(27)	(9)
Recoveries:			
Real estate mortgage	**–**	16	–
Total recoveries	**–**	16	–
Net charge offs	**(8)**	(11)	(9)
Provision for loan losses	**203**	393	1,034
Balance at December 31	**$ 3,026**	$ 2,831	$ 2,449
Net charge-offs to average net loans	**<0.01%**	<0.01%	<0.01%

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

(dollars in thousands)	**2019**	2018	2017
Real estate mortgage	**$ 799**	$ 746	$ 483
Production and intermediate-term	**2,096**	1,999	1,909
Agribusiness	**122**	86	57
Rural Infrastructure	**9**	–	–
Total	**$ 3,026**	$ 2,831	$ 2,449

The allowance for loan losses increased $195 thousand from December 31, 2018, to $3.0 million at December 31, 2019. The increase in allowance for loan losses was primarily due to the provision for loan losses totaling $203 thousand from an increase in loan volume and increased risk in the overall portfolio. Net charge-offs of $8 thousand were recorded during 2019. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2018, our allowance for loan losses increased $382 thousand from 2017 primarily due to the provision for loan losses totaling $393 thousand from increased risk in the overall portfolio and an increase in loan volume. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2019	2018	2017
Allowance for loan losses as a percentage of:			
Loans	**0.24%**	0.24%	0.23%
Impaired loans	**61.27%**	130.46%	161.86%
Nonaccrual loans	**61.27%**	130.46%	161.86%

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 commitment follows.

	2019	2018	2017
Balance at beginning of year	**$ 442**	$ 434	$ 848
Provision for/(Reversal of) reserve for unfunded commitment	**105**	8	(414)
Total	**$ 547**	$ 442	$ 434

The increase in provision for unfunded commitments in 2019 was primarily due to new unfunded commitments and increased risk in the loan portfolio with related unfunded commitments.

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 for individual loan size, commodity type, special lending programs and geographic concentrations. As of December 31, 2019, all individual loan commitments were below 10.8%.

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

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

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

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

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

- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2019, we recorded net income of $26.7 million, compared with $27.6 million in 2018, and $16.6 million in 2017. The decrease in 2019 was primarily due to the reduction in patronage dividends received from CoBank which led to a decrease in noninterest income and an increase in purchased services contributed to the rise in noninterest expense. These were offset by the increase in net interest income. The increase in 2018 was primarily due to an increase in net interest income and noninterest income, both driven by our merger and additional loan volume growth. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2019 vs. 2018**	2018 vs. 2017
Net income, prior year	**$ 27,593**	$ 16,604
Increase/(Decrease) from changes in:		
Interest income	**5,065**	19,016
Interest expense	**(3,361)**	(9,808)
Net interest income	**1,704**	9,208
Provision for credit losses	**93**	219
Noninterest income	**(1,574)**	2,945
Noninterest expense	**(863)**	(1,335)
Provision for income taxes	**(265)**	(48)
Total (decrease)/increase in net income	**(905)**	10,989
Net income, current year	**$ 26,688**	$ 27,593

Return on average assets decreased to 2.13% from 2.35% in 2018, and return on average shareholders' equity decreased to 10.57% from 11.82% in 2018. Average assets increased 6.49% and average shareholder's equity increased 8.16% while net income decreased 3.28%. The decreases are primarily due to lower net income and loan volume growth driving the increase in total average assets.

Net Interest Income

Net interest income for 2019 was $32.2 million compared with $30.5 million for 2018 and $21.3 million for 2017. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to loan volume growth that began in 2018 and continued throughout 2019. The following table provides an analysis of the individual components of the change in net interest income during 2019 and 2018.

(dollars in thousands)	**2019 vs. 2018**	2018 vs. 2017
Net interest income, prior year	**$ 30,505**	$ 21,297
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**1,543**	4,166
Interest rates paid	**(1,794)**	(3,423)
Volume of interest-bearing assets and liabilities	**1,988**	8,533
Interest income on nonaccrual loans	**(33)**	(68)
Increase in net interest income	**1,704**	9,208
Net interest income, current year	**$ 32,209**	$ 30,505

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

	For the Year Ended December 31		
	2019	2018	2017
Net interest margin	**2.74%**	2.76%	2.66%
Interest rate on:			
Average loan volume	**5.07%**	4.94%	4.42%
Average debt	**2.76%**	2.57%	2.07%
Interest rate spread	**2.31%**	2.37%	2.35%

The decrease in interest rate spread resulted from a 19 basis point increase in interest rates on average debt offset by a 13 basis point increase in interest rates on average loan volume. The decrease in net interest margin in addition to the change in spread was impacted by higher earnings on our own capital.

Provision for Credit Losses

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitment is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net provision for credit losses of $308 thousand in 2019, compared with $401 thousand in 2018 and $620 thousand in 2017. The provision for loan losses of $203 thousand recorded during 2019 was primarily due to an increase in loan volume and increased risk in the overall portfolio. The provision for reserve for unfunded commitments of $105 thousand was recorded during 2019 due to an increase in loan volume and increased risk in the overall portfolio. The provisions for loan losses recorded in 2018 and 2017 were primarily due to an increase in risk exposure on certain loans and for certain commodities. The provision for reserve for unfunded commitments recorded in 2018 was primarily due to increased risk exposure. The reversal of reserve for unfunded commitments of $414 thousand recorded in 2017 was due primarily to the reclassification of management subjective amounts to the allowance for loan losses account.

Noninterest Income

During 2019, we recorded noninterest income of $8.0 million, compared with $9.5 million in 2018 and $6.6 million in 2017. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was $6.2 million in 2019, $7.5 million in 2018 which included a one-time cash patronage distribution of $1.0 million relating to tax reform changes, and $5.8 million in 2017.

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

In 2019, we recorded a cash patronage of $9 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 2018 and $11 thousand in 2017. Patronage from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of $284 thousand during 2019 and $755 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 $563 thousand during 2019, which is distributed to us quarterly by CoBank. Mineral income increased from $517 thousand in 2018 and $342 thousand in 2017. The increase is attributed to an increase in production revenue resulting from additional wells being brought online.

Noninterest Expense

Noninterest expense for 2019 increased $863 thousand, or 7.1%, to $13.0 million compared with 2018 and $2.2 million, or 20.3% compared with 2017. Noninterest expense for each of the three years ended December 31 is summarized as follows.

(dollars in thousands)	**2019**	2018	2017	**Percent of Change 2019/2018**	2018/2017
Salaries & employee benefits	**$ 6,518**	$ 6,310	$ 5,341	**3.30%**	18.14%
Occupancy & equipment	**515**	488	339	**5.53%**	43.95%
Purchased services from AgVantis	**2,041**	1,809	1,224	**12.82%**	47.79%
Merger implementation cost	**–**	–	679	**–**	(100.00%)
Supervisory & examination costs	**410**	414	354	**(0.97%)**	16.95%
Other	**2,722**	2,363	1,915	**15.19%**	23.39%
Total operating expense	**12,206**	11,384	9,852	**7.22%**	15.55%
Farm Credit Insurance Fund premium	**839**	755	995	**11.13%**	(24.12%)
Equity position conversion fee	**–**	43	–	**(100.00%)**	100.00%
Total noninterest expense	**$13,045**	$12,182	$10,847	**7.08%**	12.31%

For the year ended December 31, 2019, total operating expense increased $822 thousand, or 7.2%, compared with the year ended December 31, 2018, primarily due to increased fees from service providers. Insurance Fund premium increased $84 thousand to $839 thousand at December 31, 2019 due to an increase in volume. The premium rate remained constant from 2018.

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

Provision for income taxes/Benefit from income taxes

We recorded $132 thousand in provision for income taxes during 2019, compared with benefit from income taxes of $133 thousand in 2018 and $181 thousand in 2017. The increase in 2019 was primarily due to the adjustment for accrued patronage from CoBank resulting in a deferred tax liability of $118 thousand. Tax expense was also impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

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

LIQUIDITY

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

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $979.5 million in 2019, $926.7 million in 2018 and $679.5 million in 2017.

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

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option

characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank pro-rata with our loan portfolio. This program utilizes a percentage of our equity to fund each loan cash flow throughout the life of the loan. We exited CoBank's Association Equity Positioning Program's (AEPP) fixed rate investments on March 1, 2018, and reinvested those earnings pro-rata with our loan portfolio. These programs allow us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position. We perform interest rate shock sensitivities and report the results to the Board in compliance with our policy.

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors 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.

Uncertainty Surrounding the Future of LIBOR

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

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

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

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. At this time, we are unable to predict whether or when LIBOR will cease to be available or if SOFR or any other alternative reference rate will become the benchmark to replace LIBOR. Because we engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on the Association and our borrowers.

High Plains Farm Credit has started a LIBOR transition plan to be fully implemented in 2021.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2019 totaled $252.6 million, compared with $237.9 million at December 31, 2018 and $218.2 million at December 31, 2017. The increase of $14.7 million in shareholders' equity reflects net income and net stock issuances, partially offset by patronage refunds, dividends declared and a decrease in accumulated other comprehensive loss. Our capital position is reflected in the following ratio comparisons.

	2019	2018	2017
Debt to shareholders' equity	**4.31:1**	4.23:1	4.21:1
Shareholders' equity as a percent of net loans	**20.43%**	20.60%	20.69%
Shareholders' equity as a percent of total assets	**18.82%**	19.14%	19.19%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2018. Debt to shareholders' equity increased primarily due to an increase in the note payable to CoBank attributable to the increase in loan volume and an increase in funds held as collateral. Shareholders' equity as a percent of net loans and of total assets decreased largely due to the increase in loan volume.

Retained Earnings

Our retained earnings increased $14.0 million to $176.0 million at December 31, 2019 from $162.0 million at December 31, 2018 and increased $32.0 million from $143.9 million at December 31, 2017. The increase in 2019 was a result of net income of $26.7 million, partially offset by $12.5 million of patronage distributions declared and preferred stock dividends declared of $201 thousand.

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 $9.4 million in 2019, $4.4 million in 2018 and $3.0 million in 2017. During 2019, we declared patronage distributions of $12.5 million to be paid in March 2020.

Additional Paid-in Capital

As a result of the 2017 merger with Ness City and as required under generally accepted accounting principles, we recorded additional paid-in capital of $69.4 million as a component of shareholders' equity. This amount represents the difference between the fair value of the net assets acquired and the stock issued in the transaction.

Capital Stock

Our capital stock decreased $50 thousand to $1.7 million at December 31, 2019, from $1.8 million at December 31, 2018 and $1.8 million at December 31, 2017. The decrease during 2019 was due to $120 thousand of stock retirements, partially offset by $70 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).

Preferred Stock

Our common equity holders may voluntarily invest in our preferred stock program. At December 31, 2019 there was $5.7 million of preferred stock outstanding, compared with $5.1 million at December 31, 2018 and $3.5 million at December 31, 2017. Purchases are limited to $1 million per stockholder. For a complete discussion of our stock programs, see Note 7 of the accompanying consolidated financial statements.

Accumulated Other Comprehensive Income or Loss

Accumulated other comprehensive loss totaled $197 thousand at December 31, 2019, a decrease of $99 thousand compared with year-end 2018 and a decrease of $217 thousand compared with year-end 2017. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive loss.

Capital Plan and Regulatory Requirements

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

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

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

	2019	2018	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**16.02%**	16.05%	15.43%	7.00%
Tier 1 Capital ratio	**16.02%**	16.05%	15.43%	8.50%
Total Capital ratio	**16.28%**	16.31%	15.70%	10.50%
Tier 1 Leverage ratio	**16.72%**	16.65%	15.97%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage ratio	**18.85%**	18.79%	18.20%	1.50%
Permanent capital ratio	**16.49%**	16.54%	15.74%	7.00%

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

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

	2016	2015	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	15.16%	13.53%	13.40%	13.59%	13.53%	7.00%
Total surplus ratio	14.54%	12.99%	12.97%	13.41%	13.32%	7.00%
Core surplus ratio	14.54%	12.99%	12.97%	13.41%	13.27%	3.50%

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

Building Projects

High Plains Farm Credit continues to expand products and services for stockholders, which gives rise to a need for infrastructure commensurate with our current and future growth. In March 2019, the Board of Directors approved a building addition to the Pratt office. The expansion provided additional offices. Construction commenced in May 2019 and was completed in February 2020. The project was funded primarily through financing with CoBank.

REGULATORY MATTERS

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

GOVERNANCE

Board of Directors

We are governed by a 14 member board that provides direction and oversees our management. Of these directors, 12 are elected by the shareholders and 2 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;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues;
- sets and reviews policies; 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.

Governance Committee

The Governance Committee serves to monitor significant developments in applicable law, including regulations and other legal guidance, and within the practice of corporate governance generally. The Governance Committee is composed of 8 members of the Board, as appointed by the Chairperson of the Board on an annual basis. During 2019, three meetings were held. The Governance Committee responsibilities generally include, but are not limited to the following:

- General Corporate Governance
- Evaluations and Training
- Governance and Nominations
- Other General Items

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of 7 members of the Board of Directors. During 2019, ten meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

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

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of 8 members of the Board of Directors. During 2019, five meetings were held. The Committee's responsibilities include making recommendations to the Board on the following items:

- salary and incentive compensation of the CEO and other senior management;
- salary administration plans and bonus/incentive plans for employees;
- benefits provided to employees and the related benefit plans;
- the CEO's and any other employment agreements; and,
- compensation for the members of the Board of Directors.

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 the Board of Directors and 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 the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, and other senior financial professionals who are involved, directly or indirectly, with the preparation of our financial statements and the maintenance of financial records supporting the financial statements. These Codes of Ethics supplement our Standards of Conduct Policies for Directors and Employees. Annually, each employee and director files a written and signed disclosure statement as required under

the Standards of Conduct Policies. Likewise, all employees certify compliance with our Code of Ethics on an annual basis.

Whistleblower Program

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

FORWARD-LOOKING INFORMATION

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitment

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

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

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

CUSTOMER PRIVACY

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

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REPORT OF MANAGEMENT

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

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, management engaged independent auditors 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 High Plains 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.

Craig Gebhard
Chairman of the Board

Kevin D Swayne
President and Chief Executive Officer

Melvin E. Kitts
Chairman of the Audit Committee

Kelly M Forell, CPA
Chief Financial Officer

March 9, 2020

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Report on Internal Control Over Financial Reporting

High Plains Farm Credit, ACA (Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its consolidated financial statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the framework in *Internal Control—Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.

Kevin D. Swayne
President and Chief Executive Officer

Kelly M. Forell, CPA
Chief Financial Officer

March 9, 2020

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes 7 members from the Board of Directors of High Plains Farm Credit, ACA (Association). In 2019, ten (10) Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2019.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2019 were $62,200 for audit services, $8,800 for tax services and $14,000 for incremental fees associated with the 2018 audit.

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

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

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

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

Melvin E. Kitts

Melvin E. Kitts, Chairman of the Audit Committee

Audit Committee Members
Jeannine Mondero
Keith Kennedy
Tim Benoit
Monte Thom
Daniel Cossman
Craig Gebhard (ex officio)

March 9, 2020

Report of Independent Auditors

To the Board of Directors of
High Plains Farm Credit, ACA

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 9, 2020

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

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2019	2018	2017
ASSETS			
Loans	**$ 1,239,480**	$ 1,157,565	$ 1,056,849
Less allowance for loan losses	**3,026**	2,831	2,449
Net loans	**1,236,454**	1,154,734	1,054,400
Cash	**24,708**	15,341	13,166
Investment in dealer notes	**-**	-	1,109
Accrued interest receivable	**20,127**	18,788	16,634
Investment in CoBank, ACB	**43,084**	40,373	38,477
Premises and equipment, net	**4,954**	4,079	3,026
Prepaid benefit expense	**2,695**	1,899	1,312
Other assets	**9,967**	7,922	8,705
Total assets	**$ 1,341,989**	$ 1,243,136	$ 1,136,829
LIABILITIES			
Note payable to CoBank, ACB	**$ 1,046,968**	$ 974,875	$ 898,655
Advance conditional payments	**23,149**	13,406	6,616
Accrued interest payable	**2,255**	2,368	1,645
Patronage distributions payable	**12,500**	9,400	4,400
Accrued benefits liability	**293**	496	697
Deferred tax liability	**118**	-	202
Reserve for unfunded commitments	**547**	442	434
Other liabilities	**3,587**	4,235	5,994
Total liabilities	**$ 1,089,417**	$ 1,005,222	$ 918,643
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Preferred stock	**5,672**	5,050	3,453
Capital stock	**1,744**	1,794	1,818
Additional paid-in capital	**69,380**	69,380	69,380
Unallocated retained earnings	**175,973**	161,986	143,949
Accumulated other comprehensive income/(loss)	**(197)**	(296)	(414)
Total shareholders' equity	**252,572**	237,914	218,186
Total liabilities and shareholders' equity	**$ 1,341,989**	$ 1,243,136	$ 1,136,829

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2019	2018	2017
INTEREST INCOME			
Loans	**$ 59,575**	$ 54,459	$ 35,433
Investment in dealer notes	**-**	51	61
Total interest income	**59,575**	54,510	35,494
INTEREST EXPENSE			
Note payable to CoBank, ACB	**27,129**	23,874	14,140
Other	**237**	131	57
Total interest expense	**27,366**	24,005	14,197
Net interest income	**32,209**	30,505	21,297
Provision for credit losses	**308**	401	620
Net interest income after provision for credit losses	**31,901**	30,104	20,677
NONINTEREST INCOME			
Financially related services income	**346**	285	244
Loan fees	**232**	212	59
Patronage distribution from Farm Credit institutions	**6,207**	7,503	5,764
Farm Credit Insurance Fund distribution	**284**	755	-
Mineral income	**563**	517	342
Other noninterest income	**332**	266	184
Total noninterest income	**7,964**	9,538	6,593
NONINTEREST EXPENSE			
Salaries and employee benefits	**6,518**	6,310	5,341
Occupancy and equipment	**515**	488	339
Purchased services from AgVantis, Inc.	**2,041**	1,809	1,224
Farm Credit Insurance Fund premium	**839**	755	995
Merger implementation costs	**-**	-	679
Supervisory and examination costs	**410**	414	354
Conversion fee expense	**-**	43	-
Other noninterest expense	**2,722**	2,363	1,915
Total noninterest expense	**13,045**	12,182	10,847
Income before income taxes	**26,820**	27,460	16,423
Provision for/(Benefit from) income taxes	**132**	(133)	(181)
Net income	**26,688**	27,593	16,604
COMPREHENSIVE INCOME			
Amortization of retirement costs	**93**	112	88
Actuarial gain/(loss) in retirement obligation	**6**	6	(101)
Total comprehensive income	**$ 26,787**	$ 27,711	$ 16,591

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Preferred Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balance at December 31, 2016	$ 1	$ 3,494	$ 1,148	$ -	$ 131,832	$ (401)	$ 136,074
Comprehensive income					16,604	(13)	16,591
Stock issued	-	1,359	83				1,442
Stock retired	(1)	(1,400)	(113)				(1,514)
Preferred stock dividends declared		-			(87)		(87)
Patronage distributions: Cash					(4,400)		(4,400)
Stock issued in connection with merger			700	69,380			70,080
Balance at December 31, 2017	-	3,453	1,818	69,380	143,949	(414)	218,186
Comprehensive income					27,593	118	27,711
Stock issued	-	3,592	84				3,676
Stock retired	-	(1,995)	(108)				(2,103)
Preferred stock dividends declared		-			(156)		(156)
Patronage distributions: Cash					(9,400)		(9,400)
Balance at December 31, 2018	-	5,050	1,794	69,380	161,986	(296)	237,914
Comprehensive income					26,688	99	26,787
Stock issued	-	2,607	70				2,677
Stock retired	-	(1,985)	(120)				(2,105)
Preferred stock dividends declared		-			(201)		(201)
Patronage Distirbution: Cash					(12,500)		(12,500)
Balance at December 31, 2019	**$ -**	**$ 5,672**	**$ 1,744**	**$ 69,380**	**$ 175,973**	**$ (197)**	**$ 252,572**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 26,688**	$ 27,593	$ 16,604
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**414**	375	294
Provision for credit losses	**308**	401	620
Patronage stock from CoBank, ACB	**(504)**	(575)	(675)
Allocated patronage from AgVantis	**-**	-	-
Gains on sales of premises and equipment	**(108)**	(62)	(20)
Net accretion of yield related to loans and notes payable acquired in merger	**(352)**	(230)	(89)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(1,339)**	(2,154)	1,120
Increase in prepaid benefit expense	**(796)**	(587)	(478)
(Increase)/Decrease in other assets	**(1,541)**	1,358	325
(Decrease)/Increase in accrued interest payable	**(113)**	723	327
(Decrease)/Increase in accrued benefits liability	**(104)**	(83)	69
Increase/(Decrease) in deferred tax liability	**118**	(202)	(221)
(Decrease)/Increase in other liabilities	**(849)**	(1,915)	1,508
Total adjustments	**(4,866)**	(2,951)	2,780
Net cash provided by operating activities	**21,822**	24,642	19,384
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in investment in dealer notes	**-**	1,109	115
Increase in loans, net	**(81,908)**	(100,390)	(25,174)
Net cash acquired in business combination	**-**	-	275
Increase in investment in CoBank, ACB	**(2,711)**	(1,896)	(621)
Expenditures for premises and equipment	**(1,520)**	(1,439)	(697)
Proceeds from sales of premises and equipment	**339**	73	244
Net cash used in investing activities	**(85,800)**	(102,543)	(25,858)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**72,430**	76,113	15,799
Increase in advance conditional payments	**9,743**	6,790	2,520
Protected borrower stock retired	**-**	-	(1)
Preferred stock retired	**(1,985)**	(1,995)	(1,400)
Preferred stock issued	**2,607**	3,592	1,359
Capital stock retired	**(120)**	(108)	(113)
Capital stock issued	**70**	84	83
Cash patronage distributions paid	**(9,400)**	(4,400)	(3,000)
Net cash provided by financing activities	**73,345**	80,076	15,247
Net increase in cash	**9,367**	2,175	8,773
Cash at beginning of year	**15,341**	13,166	4,393
Cash at end of year	**$ 24,708**	$ 15,341	$ 13,166
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	**$ 27,479**	$ 23,282	$ 13,459
Income taxes	**$ -**	$ (94)	$ (106)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 504**	$ 575	$ 675
Net charge-offs	**$ 8**	$ 11	$ 9
Patronage distributions payable	**$ 12,500**	$ 9,400	$ 4,400
Preferred stock dividends declared	**$ 201**	$ 156	$ 87
Change in accumulated other comprehensive income/(loss)	**$ 99**	$ 118	$ (13)
Impact of merger transaction			
Assets acquired	**$ -**	$ -	$ 343,253
Liabilities assumed	**$ -**	$ -	$ 273,173
Equity Issued	**$ -**	$ -	$ 70,080

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: High Plains Farm Credit, ACA and its subsidiaries, High Plains Farm Credit, FLCA, (Federal Land Credit Association (FLCA)) and High Plains 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 Barber, Barton, Clark, Comanche, Edwards, Ellis, Ford, Gove, Graham, Hodgeman, Kiowa, Lane, Meade, Ness, Norton, Osborne, Pawnee, Phillips, Pratt, Rooks, Rush, Russell, Sheridan, Smith, Stafford and Trego in the state of Kansas.

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

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

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

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

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

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

The Association also serves as an intermediary in offering credit life insurance, multi-peril crop and crop hail insurance, preferred stock program, advance conditional payment accounts, leasing through Farm Credit leasing and provides additional services to borrowers such as 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 605 Main, Larned, Kansas 67550-0067, or may be contacted by calling (620) 285-6978. 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.

C: Merger: The merger between High Plains Farm Credit, ACA (High Plains) and Farm Credit of Ness City, FLCA (Ness City) was effective October 1, 2017. The merged entity, High Plains Farm Credit, ACA is headquartered in Larned, Kansas. The merged entity now serves nearly 1,800 customers in central and western Kansas and has assets over $1 billion. The primary reason for the merger was to create a stronger financial institution of greater capital, capacity and human resources to serve agriculture and rural Kansas. The effects of the merger are included in the Association's results of operations, balance sheet, average balances and related metrics beginning October 1, 2017.

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Statement of Condition reflects the merged balances as of December 31, 2017. The Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Shareholders' Equity and the Consolidated Statement of Cash Flows reflect the results of High Plains prior to October 1, 2017 and the merged Association from October 1, 2017 forward. Information presented in the Notes to the Consolidated Financial Statement for 2017 reflects balances of the merged Association as of December 31, or in the case of transactional activity of the merged Association for the period of October 1 to December 31.

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

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

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC 805, Business Combinations (ASC 805)). Pursuant to these rules, High Plains acquired the assets and assumed the liabilities of Ness City at their acquisition-date fair value. The fair value of the net identifiable assets acquired ($70.1 million) was substantially equal to the fair value of the equity interest exchanged in the merger. In addition, no material amounts of intangible assets were acquired. As a result, no goodwill was recorded.

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

Condensed Statement Of Net Assets Acquired	October 1, 2017
Assets	
Net loans	$ 320,983
Cash	275
Accrued interest receivable	6,998
Other assets	14,997
Total Assets	$ 343,253
Liabilities	
Notes payable	$ 271,780
Accrued interest payable	411
Other liabilities	982
Total Liabilities	$ 273,173
Fair Value of Net Assets Acquired	$ 70,080

Fair value adjustments to Ness City's assets and liabilities included a $1.4 million decrease to loans and a $128 thousand decrease to notes payable to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences will be accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. The Association expects to collect the substantial majority of the contractual amounts of the acquired loans, which totaled $324.9 million at October 1, 2017.

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 High Plains Farm Credit, PCA and High Plains Farm Credit, FLCA and reflect the investments in and allocated earnings of the service organizations in which the Association has partial ownership interests. Inter-company transactions have been eliminated in consolidation.

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses; the valuation of deferred tax assets; the determination of fair value of financial instruments and subsequent impairment analysis.

Recently Issued Accounting Pronouncements

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

after the date of adoption. The Association has evaluated the impact of adoption on the Association's financial condition and its results of operations and determined the impact to be immaterial.

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

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

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its financial condition and its results of operations.

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

Summary of the Association's Significant Accounting Policies

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

   Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality, and therefore acquired loans have no related allowance for loan losses at acquisition date. Those loans with evidence of credit quality deterioration at purchase are required to be recorded in accordance with the authoritative accounting guidance on "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

   Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal

repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected or otherwise discharged in full.

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

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

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

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

The Association purchases loan participations from other System and non-System entities to generate additional earnings and diversify risk. Additionally, the Association sells a portion of certain large loans to other System and non-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, loans collectively evaluated for impairment and loans acquired through mergers with deteriorated credit quality. 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 buildings range from 10 to 50 years, 1 to 15 years for furniture and equipment and 1 to 5 years for automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are

observable such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and, (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

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

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2019	2018	2017
Real estate mortgage	**$ 741,527**	$ 734,857	$ 730,288
Production and intermediate-term	**389,760**	335,246	281,269
Agribusiness	**101,566**	83,712	41,055
Rural infrastructure	**6,302**	3,246	3,477
Rural residential real estate	**325**	504	760
Total loans	**$1,239,480**	$1,157,565	$1,056,849

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 52,208	$ 93,476	$ 1,170	$ –	$ 53,378	$ 93,476
Production and intermediate-term	72,899	206,632	1,280	–	74,179	206,632
Agribusiness	77,531	18,694	–	917	77,531	19,611
Rural infrastructure	6,302	–	–	–	6,302	–
Total	$ 208,940	$ 318,802	$ 2,450	$ 917	$ 211,390	$ 319,719

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.

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of $19.3 million, $18.7 million and $18.0 million at December 31, 2019, 2018 and 2017, respectively. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four

months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling $72 in 2019, $74 in 2018 and $64 in 2017 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of $8.6 million at year-end 2019, $8.7 million at year-end 2018 and $9.8 million at year-end 2017 were outstanding. Farm Service Agency (FSA) loan guarantees are utilized when appropriate to manage credit risk. Typically, the Association has a 90% guarantee from the FSA which would insure that our loss on a guaranteed loan would not exceed 10% of the original loan balance in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured.

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

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

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2019	2018	2017
Real estate mortgage			
Acceptable	**89.20%**	90.71%	93.96%
OAEM	**6.69%**	5.73%	4.07%
Substandard	**4.11%**	3.56%	1.97%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**88.44%**	87.20%	91.78%
OAEM	**6.87%**	9.36%	5.06%
Substandard	**4.69%**	3.44%	3.16%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**100.00%**	96.83%	99.97%
OAEM	**–**	3.17%	0.03%
Total	**100.00%**	100.00%	100.00%
Rural infrastructure			
Acceptable	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Rural residential real estate			
Acceptable	**87.92%**	90.47%	100.00%
Substandard	**12.08%**	9.53%	–
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**89.89%**	90.15%	93.63%
OAEM	**6.17%**	6.58%	4.17%
Substandard	**3.94%**	3.27%	2.20%
Total	**100.00%**	100.00%	100.00%

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

	December 31		
	2019	2018	2017
Nonaccrual loans:			
Current as to principal and interest	**$ 2,147**	$ 2,124	$ 379
Past due	**2,792**	46	1,134
Total nonaccrual loans	**4,939**	2,170	1,513
Total impaired loans	**$ 4,939**	$ 2,170	$ 1,513

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

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

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

	December 31		
	2019	2018	2017
Nonaccrual loans			
Real estate mortgage	**$ 4,697**	$ 1,896	$ 1,475
Production and intermediate-term	**242**	274	38
Total nonaccrual loans	**4,939**	2,170	1,513
Total impaired loans	**$ 4,939**	$ 2,170	$ 1,513

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

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 930	$ 874	$ 113	$ 632	$ –
Production and intermediate-term	–	–	–	135	–
Total	$ 930	$ 874	$ 113	$ 767	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,767	$ 4,122		$ 3,507	$ 15
Production and intermediate-term	242	273		125	–
Agribusiness	–	107		–	–
Total	$ 4,009	$ 4,502		$ 3,632	$ 15
Total impaired loans:					
Real estate mortgage	$ 4,697	$ 4,996	113	$ 4,139	$ 15
Production and intermediate-term	242	273	–	260	–
Agribusiness	–	107	–	–	–
Total	$ 4,939	$ 5,376	$ 113	$ 4,399	$ 15

	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:					
Production and intermediate-term	274	292	35	242	–
Total	$ 274	$ 292	35	$ 242	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,896	$ 2,210		$ 1,631	$ 32
Production and intermediate-term	–	–		38	22
Agribusiness	–	107		–	–
Total	$ 1,896	$ 2,317		$ 1,669	$ 54
Total impaired loans:					
Real estate mortgage	$ 1,896	$ 2,210	–	$ 1,631	$ 32
Production and intermediate-term	274	292	35	280	22
Agribusiness	–	107	–	–	–
Total	$ 2,170	$ 2,609	$ 35	$ 1,911	$ 54

	Recorded Investment at 12/31/17	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ 545	$ –
Production and intermediate-term	–	–	–	233	–
Total	$ –	$ –	–	$ 778	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,475	$ 1,632		$ 484	$ 88
Production and intermediate-term	38	39		103	34
Agribusiness	–	107		–	–
Total	$ 1,513	$ 1,778		$ 587	$ 122
Total impaired loans:					
Real estate mortgage	$ 1,475	$ 1,632	–	$ 1,029	$ 88
Production and intermediate-term	38	39	–	336	34
Agribusiness	–	107	–	–	–
Total	$ 1,513	$ 1,778	$ –	$ 1,365	$ 122

* 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		
	2019	2018	2017
Interest income recognized on:			
Nonaccrual loans	**$ 14**	$ 47	$ 115
Accrual loans 90 days or more past due	**1**	7	7
Interest income recognized on impaired loans	**$ 15**	$ 54	$ 122

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

	Year Ended December 31		
	2019	2018	2017
Interest income which would have been recognized under the original loan terms	**$ 335**	$ 162	$ 166
Less: interest income recognized	**14**	47	115
Interest income not recognized	**$ 321**	$ 115	$ 51

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

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 1,474	$ 2,747	$ 4,221	$ 749,861	$ 754,082	$ –
Production and intermediate-term	1,483	–	1,483	395,553	397,036	–
Agribusiness	–	–	–	101,845	101,845	–
Rural infrastructure	–	–	–	6,317	6,317	–
Rural residential real estate	–	–	–	327	327	–
Total	$ 2,957	$ 2,747	$ 5,704	$1,253,903	$1,259,607	$ –

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	$ 366	$ –	$ 366	$ 747,209	$ 747,575	$ –
Production and intermediate-term	8	–	8	341,025	341,033	–
Agribusiness	–	–	–	83,980	83,980	–
Rural infrastructure	–	–	–	3,259	3,259	–
Rural residential real estate	–	–	–	506	506	–
Total	$ 374	$ –	$ 374	$1,175,979	$1,176,353	$ –

December 31, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 2,468	$ 566	$ 3,034	$ 739,024	$ 742,058	$ –
Production and intermediate-term	–	–	–	286,008	286,008	–
Agribusiness	–	–	–	41,170	41,170	–
Rural infrastructure	–	–	–	3,483	3,483	–
Rural residential real estate	–	–	–	764	764	–
Total	$ 2,468	$ 566	$ 3,034	$1,070,449	$1,073,483	$ –

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

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

	Year Ended December 31					
	2019		2018		2017	
	Outstanding Recorded Investment					
	Pre-modification	**Post-modification**	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:						
Real estate mortgage	**$ –**	**$ –**	$ 643	$ 648	$ –	$ –
Total	**$ –**	**$ –**	$ 643	$ 648	$ –	$ –

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 additional commitments to lend to borrowers whose loans have been modified in TDRs during the periods presented. There were no payment defaults on TDRs during the periods presented.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at December 31.

	Loans Modified as TDRs			TDRs in Nonaccrual Status*		
	2019	2018	2017	**2019**	2018	2017
Real estate mortgage	**$ 536**	$ 607	$ –	**$ 536**	$ 607	$ –
Total	**$ 536**	$ 607	$ –	**$ 536**	$ 607	$ –

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

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

	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses	Balance at December 31, 2019
Real estate mortgage	$ 746	$ (4)	$ –	$ 57	$ 799
Production and intermediate-term	1,999	(4)	–	101	2,096
Agribusiness	86	–	–	36	122
Rural infrastructure	–	–	–	9	9
Total	$ 2,831	$ (8)	$ –	$ 203	$ 3,026

	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses	Balance at December 31, 2018
Real estate mortgage	$ 483	$ (23)	$ 16	$ 270	$ 746
Production and intermediate-term	1,909	(4)	–	94	1,999
Agribusiness	57	–	–	29	86
Total	$ 2,449	$ (27)	$ 16	$ 393	$ 2,831

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/(Loan Loss Reversals)	Balance at December 31, 2017
Real estate mortgage	$ 232	$ (5)	$ –	$ 256	$ 483
Production and intermediate-term	1,171	(4)	–	742	1,909
Agribusiness	20	–	–	37	57
Rural infrastructure	1	–	–	(1)	–
Total	$ 1,424	$ (9)	$ –	$ 1,034	$ 2,449

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

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

	For the Year Ended December 31		
	2019	2018	2017
Balance at beginning of period	**$ 442**	$ 434	$ 848
Provision for/(Reversal of) reserve for unfunded commitments	**105**	8	(414)
Total	**$ 547**	$ 442	$ 434

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2019	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 113	$ 686	$ 4,697	$ 749,385
Production and intermediate-term	–	2,096	242	396,794
Agribusiness	–	122	–	101,845
Rural infrastructure	–	9	–	6,317
Rural residential real estate	–	–	–	327
Total	$ 113	$ 2,913	$ 4,939	$ 1,254,668

	Allowance for Loan Losses Ending Balance at December 31, 2018		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2018	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 746	$ 1,896	$ 745,680
Production and intermediate-term	35	1,964	274	340,759
Agribusiness	–	86	–	83,980
Rural infrastructure	–	–	–	3,259
Rural residential real estate	–	–	–	506
Total	$ 35	$ 2,796	$ 2,170	$ 1,174,184

	Allowance for Loan Losses Ending Balance at December 31, 2017		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 483	$ 1,475	$ 740,583
Production and intermediate-term	–	1,909	38	285,970
Agribusiness	–	57	–	41,170
Rural infrastructure	–	–	–	3,483
Rural residential real estate	–	–	–	764
Total	$ –	$ 2,449	$ 1,513	$ 1,071,970

NOTE 4 – INVESTMENT IN COBANK

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

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

The Association owned approximately 1.20 percent of the outstanding common stock of CoBank at December 31, 2019, compared with 1.20 percent at December 31, 2018 and 1.21 percent at December 31, 2017.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2019	2018	2017
Land	**$ 160**	$ 160	$ 160
Buildings and leasehold improvements	**5,125**	3,586	3,560
Furniture, equipment and automobiles	**1,957**	1,805	1,688
Construction in progress	**466**	1,139	28
	7,708	6,690	5,436
Less: accumulated depreciation	**2,754**	2,611	2,410
Total	**$ 4,954**	$ 4,079	$ 3,026

NOTE 6 – NOTE PAYABLE TO COBANK

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

	December 31		
	2019	2018	2017
Line of credit	**$ 1,110,000**	$ 1,070,000	$ 1,070,000
Outstanding principal and accrued interest balance	**$ 1,049,172**	$ 977,192	$ 900,291
Average outstanding principal balance under the line of credit	**$ 979,510**	$ 926,674	$ 679,463
Weighted average interest rate	**2.77%**	2.58%	2.08%

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

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

	2019	2018	2017
Average committed funds	**$ 203,453**	$ 186,756	$ 128,801
Average rates	**2.48%**	2.38%	1.64%

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

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

C. Regulatory Capitalization Requirements and Restrictions

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

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

Ratio	Primary Components of Numerator	Denominator	2019	2018	2017	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	16.02%	16.05%	15.43%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, noncumulative perpetual preferred stock	Risk-adjusted assets	16.02%	16.05%	15.43%	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	16.28%	16.31%	15.70%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	16.72%	16.65%	15.97%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	18.85%	18.79%	18.20%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	16.49%	16.54%	15.74%	–	7.0%

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

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

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2019. Unless otherwise indicated, all classes of stock have a par value of $5.00. All classes of stock are transferable to other customers who are eligible to hold such class of stock. Transfers of stock are only allowed as long as the Association meets the regulatory minimum capital requirements. Refer to the Management's Discussion and Analysis Capital Resources discussion for further information.

Class A Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued in exchange for Class B Common Stock or Class C Common Stock; as a patronage refund; as a dividend; or in exchange for allocated surplus. Retirement is at the sole discretion of the Board of Directors.

Class B Common Stock (Voting, at-risk, 346,022 shares outstanding) – Issued solely to, and shall be acquired by, borrowers and other applicants who are farmers, ranchers, or producers or harvesters of aquatic products and who are eligible to vote. Class B Common Stock may also be held by those borrowers who exchanged one share of Class F Common Stock for one share of Class B Common Stock. Each Class B Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class B Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class C Common Stock (Nonvoting, at-risk, 2,668 shares outstanding) – Class C Common Stock may be issued to borrowers or applicants who are: (a) rural residents, including persons eligible to hold voting stock, to capitalize rural housing loans; (b) persons or organizations furnishing farm-related services; (c) other persons or organizations who are eligible to borrow from or participate with the Association but who are not eligible to hold voting stock. Class C Common Stock may be issued to any person who is not a shareholder but who is eligible to borrow from the Association for the purpose of qualifying such person for technical assistance, financially related services and leasing services offered by the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class C Common Stock shall be converted to Class A Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class D Common Stock (Nonvoting, at-risk, no shares outstanding) – Issued to CoBank or to any person through direct sale.

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 F Common Stock (Voting, protected, no shares outstanding) – Shall be issued to those individuals and entities who held the same class of stock in a predecessor to the Association. The Association shall not issue any additional Class F Common Stock. Each Class F Common shareholder shall hold at least one share as long as the holder continues business with the Association. Within two years after the holder terminates its relationship with the Association, any outstanding Class F Common Stock shall be converted to Class G Common Stock. Retirement is at the sole discretion of the Board of Directors.

Class G Common Stock (Nonvoting, protected, no shares outstanding) – Issued only to those individuals and entities who held the same class of stock in a predecessor to the Association and as necessary for conversions from Class F Common Stock. No further shares of Class G Common Stock will be issued. It must be retired upon repayment of the loan.

Class H Preferred Stock (Nonvoting, at-risk, 5,672,000 shares outstanding, par value of one dollar) - Issued to, and may be acquired only by owners of any class of Common Stock. Class H Preferred Stock is transferable only to another Class H Preferred Stockholder, who, at the time of transfer, has an outstanding loan with the Association, and then only after the transferor and transferee provide joint written notice to the Association in a form prescribed by the Association. Class H Preferred Stock does not provide any voting rights in the election of directors or any other matter other than amendments to the Bylaws that would adversely affect a preference accorded to Class H Preferred Stock. The holders of Class H Preferred Stock are entitled to receive dividends in an amount equal to a specified percentage ("Dividend Rate") as declared by the Board of Directors. The Dividend Rate is a per annum rate that may change monthly at the discretion of the Board, but is limited to 8.0% per annum. Dividends will accrue daily and will accumulate until declared and paid in the form of cash on a semi-annual basis. The

Association may redeem shares of Preferred Stock annually on the dividend payment date in July of each year. Such redemption requests must be in the form approved by the Association and submitted no later than the preceding May 31. At December 31, 2019, the Dividend Rate was 2.75%.

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

Shares in whole numbers	Preferred	Capital
Balance outstanding at January 1, 2019	5,050,000	358,734
Issuances	2,607,000	13,991
Retirements	(1,985,000)	(24,035)
Balance outstanding at December 31, 2019	5,672,000	348,690

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class A, B, C, F, G and H Stock 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 $9.4 million in 2019, $4.4 million in 2018 and $3.0 million in 2017. The Association declared a $12.5 million cash patronage distribution in 2019 to be paid in 2020.

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

At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2019, the Association allocated 46.71 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 $197 in 2019, $296 in 2018 and $414 in 2017. There were no other items affecting comprehensive income or loss.

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

	2019	2018	2017
Pension benefit plan:			
Beginning balance	**$ (296)**	$ (414)	$ (401)
Other comprehensive income/(loss) before reclassifications	**6**	6	(101)
Amounts reclassified from accumulated other comprehensive loss	**93**	112	88
Net current period other comprehensive income/(loss)	**99**	118	(13)
Year-end balance	**$ (197)**	$ (296)	$ (414)

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

	Amount Reclassified from Accumulated Other Comprehensive Loss			Location of Gain/Loss Recognized in Statement of Income
	December 31			
	2019	2018	2017	
Pension and other benefit plans:				
Net actuarial loss	**$ 93**	$ 112	$ 88	Salaries and employee benefits
Total reclassifications	**$ 93**	$ 112	$ 88	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

	2019	2018	2017
CoBank	**$ 6,163**	$ 7,496	$ 5,753
Farm Credit Foundations	**9**	7	11
Other	**35**	–	–
Total	**$ 6,207**	$ 7,503	$ 5,764

Patronage distributed from CoBank was in cash and stock. The amount earned in 2019 was accrued and will be paid by CoBank in March 2020. The amount earned and accrued in 2018 and 2017 was paid by CoBank in March of the following year. In 2018, we received a one-time cash patronage distribution from CoBank of $1.02 million relating to tax reform changes.

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

Patronage distributions were also received from other Farm Credit entities that the Association has sold participation loans to.

NOTE 9 – INCOME TAXES

The provision for/(benefit from) income taxes follows.

	Year Ended December 31		
	2019	2018	2017
Current:			
Federal	**$ 12**	$ 52	$ 32
State	**2**	17	8
Deferred:			
Federal	**93**	(149)	(198)
State	**25**	(53)	(23)
Provision for/(Benefit from) income taxes	**$ 132**	$ (133)	$ (181)

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

	Year Ended December 31		
	2019	2018	2017
Federal tax at statutory rate	**$ 5,632**	$ 5,766	$ 5,584
State tax, net	**21**	(28)	(10)
Effect of non-taxable FLCA subsidiary	**(4,685)**	(4,489)	(4,359)
Change in valuation allowance	**(505)**	505	–
Prior year federal tax adjustments	**–**	(2)	–
Patronage distributions	**(965)**	(1,885)	(1,293)
Change in tax rates	**–**	–	(92)
Provision to return difference	**628**	–	–
Other	**6**	–	(11)
Provision for/(Benefit from) income taxes	**$ 132**	$ (133)	$ (181)

Deferred tax assets and liabilities are comprised of the following.

	December 31		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	**$ 642**	$ 605	$ 602
Interest on nonaccrual loans	**6**	2	–
Excess book depreciation > Tax depreciation	**34**	31	28
Gross deferred tax assets	**682**	638	630
Deferred tax asset valuation allowance	**–**	(638)	–
Deferred income tax liabilities:			
Bank patronage allocation	**(800)**	–	(832)
Net deferred tax liability	**$ (118)**	$ –	$ (202)

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 no valuation allowance in 2019, compared with $638 in 2018 and none in 2017. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

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

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

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth District Retirement Plan, a multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, the Association may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the

plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

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

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated ownership percentage under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $6.8 million in 2019, $10.8 million in 2018 and $12.7 million in 2017. The Association's allocated share of plan expenses included in salaries and employee benefits was $410 in 2019, $686 in 2018, and $622 in 2017. Participating employers contributed $20.0 million in 2019, $20.0 million in 2018 and $20.0 million in 2017 to the plan. The Association's allocated share of these pension contributions was $1.2 million in 2019, $1.3 million in 2018, and $1.1 million in 2017. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2020 is $30.0 million. The Association's allocated share of these pension contributions is expected to be $1.6 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 $3 in 2019, $2 in 2018 and $2 in 2017. The Association made cash contributions of $11 in 2019, $13 in 2018 and $13 in 2017.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $107 in 2019, $130 in 2018, and $179 in 2017.

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

	2019	2018	2017
Change in benefit obligation:			
Benefit obligation at the beginning of the period	**$ 386**	$ 572	$ 475
Service cost	**–**	–	78
Interest cost	**14**	18	14
Actuarial (gain)/loss	**(6)**	(6)	101
Benefits paid	**(197)**	(198)	(96)
Benefit obligation at the end of the period	**$ 197**	$ 386	$ 572
Change in plan assets:			
Company contributions	**197**	198	96
Benefits paid	**(197)**	(198)	(96)
Fair value of plan assets at the end of the period	**$ –**	$ –	$ –
Funded status of the plan	**$ (197)**	$ (386)	$ (572)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ 197**	$ 386	$ 572
Net amount recognized	**$ 197**	$ 386	$ 572

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

	2019	2018	2017
Net actuarial loss	**$ (197)**	$ (296)	$ (414)
Total amount recognized in AOCI/(Loss)	**$ (197)**	$ (296)	$ (414)

An estimated net actuarial loss of $193 for the Pension Restoration Plan will be amortized into income over the next year.

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

	2019	2018	2017
Projected benefit obligation	**$ 197**	$ 386	$ 572
Accumulated benefit obligation	**$ 197**	$ 386	$ 498

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.

	Nonqualified Pension Restoration Benefits		
	2019	2018	2017
Components of net periodic benefit cost			
Service cost	**$ –**	$ –	$ 78
Interest cost	**14**	18	13
Net amortization and deferral	**93**	112	88
Net periodic benefit cost	**$ 107**	$ 130	$ 179

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

	2019	2018	2017
Current year net actuarial gain/(loss)	**$ 6**	$ 6	$ (101)
Amortization of net actuarial loss	**93**	112	88
Total recognized in other comprehensive income/(loss)	**$ 99**	$ 118	$ (13)

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

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

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

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

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

The Association expects to contribute $197 to the Pension Restoration Plan in 2020.

Estimated Future Benefit Payments

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

	Pension Restoration Benefits
2020	$ 197
2021	$ –
2022	$ –
2023	$ –
2024	$ –
2025 – 2029	$ –

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 $395 in 2019, $384 in 2018, and $294 in 2017.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

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

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

	2019	2018	2017
Beginning balance	**$ 26,670**	$ 28,991	$ 12,210
New loans	**12,360**	17,073	18,915
Repayments	**(14,038)**	(16,788)	(11,542)
Reclassifications*	**(802)**	(2,606)	9,408
Ending balance	**$ 24,190**	$ 26,670	$ 28,991

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

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

The Association also has business relationships with certain other System entities. The Association paid $2.0 million in 2019, $1.8 million in 2018, and $1.2 million in 2017 to AgVantis for technology services. One Association officer, elected by AgVantis' owners, serves as an AgVantis' director. The Association paid $125 in 2019, $113 in 2018, and $116 in 2017 to Foundations for human resource services and $4 in 2019, $3 in 2018, and $36 in 2017 to CoBank for operational services. One Association officer, elected by Foundations' owners, serves on the Foundations' Trust Committee.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit and commercial letters of 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. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2019, $277.5 million of commitments to extend credit and $16 of commercial letters of 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 and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, $214 of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2020 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $214.

NOTE 14 – FAIR VALUE MEASUREMENTS

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

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

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets held in nonqualified benefits trusts				
2019	**$ 141**	**$ –**	**$ –**	**$ 141**
2018	$ 267	$ –	$ –	$ 267
2017	$ 364	$ –	$ –	$ 364

The Association had loans measured at fair value using Level 3 inputs on a non-recurring basis of $816 at December 31, 2019, $239 at December 31, 2018, and none at December 31, 2017.

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

Valuation Techniques

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

Assets Held in Non-Qualified Benefits Trusts

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

Loans

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process only uses independent appraisals and other market-based information.

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 8,084**	**$ 7,905**	**$ 8,083**	**$ 8,137**	**$32,209**
(Credit loss reversal)/Provision for credit losses	**(3)**	**104**	**(18)**	**225**	**308**
Noninterest expense, net	**990**	**1,311**	**1,256**	**1,656**	**5,213**
Net income	**$ 7,097**	**$ 6,490**	**$ 6,845**	**$ 6,256**	**$26,688**

	2018				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,540	$ 7,549	$ 7,621	$ 7,795	$30,505
Provision for credit losses/(Credit loss reversal)	288	219	(185)	79	401
Noninterest expense, net	68	1,004	155	1,284	2,511
Net income	$ 7,184	$ 6,326	$ 7,651	$ 6,432	$27,593

	2017				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,685	$ 4,862	$ 4,733	$ 7,017	$21,297
Provision for credit losses/(Credit loss reversal)	107	551	129	(167)	620
Noninterest expense, net	929	760	1,165	1,219	4,073
Net income	$ 3,649	$ 3,551	$ 3,439	$ 5,965	$16,604

NOTE 16 – SUBSEQUENT EVENTS

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

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

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

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

Description of Property

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

Location	Description	Form of Ownership
605 Main Larned, Kansas	Office Building & Lot	Owned
2905 Vine Street Hays, Kansas	Office Building & Lot	Owned
477 F Street Phillipsburg, Kansas	Office Building & Lot	Owned
290 NE State Road 61 Pratt, Kansas	Office Building & Lot	Owned
1405 E. Comanche Dodge City, Kansas	Office Building & Lot	Owned
101 Eagle Drive Ness City, Kansas	Office Building & Lot	Owned

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 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

SELECTED FINANCIAL DATA

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

DIRECTORS AND SENIOR OFFICERS

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

DIRECTORS

Craig Gebhard	Chairman. Three-year term expires in 2022. Mr. Gebhard is a member of the Executive Committee and serves as ex-officio for the Audit, Compensation and Governance Committees. Mr. Gebhard also serves as an alternate District Farm Credit Council Representative. He has been a farmer/rancher for five years or more with principal enterprises of dry land cropland. He is a stockholder, has controlling interest in and serves as president of Gebhard Farms, Inc., a farming corporation.
Keith Kennedy	Vice Chairman. Three-year term expires in 2020. Mr. Kennedy serves as a member of the Audit Committee and as a member of the Executive Committee. Mr. Kennedy also serves as the Association District Advisory Committee member and as the District Farm Credit Council representative. He holds a B.S. in Accounting from Fort Hays State University. Mr. Kennedy has been a farmer and stockman for five years or more.
Tim Benoit	Director. Three-year term expires in 2020. Mr. Benoit is a member of the Audit Committee and serves as an alternate on the Executive Committee. He has been a farmer/rancher for five years or more with principal enterprises of dry land crops and a cow/calf operation. Mr. Benoit has a degree in Construction from Salina Area Technical College and holds a B.S. in Agricultural Science from Fort Hays State University.
Howard Boese	Director. Three-year term expires in 2020. Mr. Boese serves as Vice Chairman of the Compensation Committee and serves as a member of the Governance Committee. Mr. Boese also serves as an alternate on the Executive Committee and the Audit Committee. He has been a farmer and stockman for five years or more. Mr. Boese's past board service includes 12 years on the Board of USD #304 (Bazine) and is a past Supervisor of the Ness County Conservation District Board.
Daniel Cossman	Director. Three-year term expires in 2022. Mr. Cossman serves as a member of the Audit Committee and as an alternate on the Executive Committee. He has been engaged in farming for five years or more and has ownership in Daniel and Gary Cossman Farms. He is also a Crop Adjuster and conducts custom harvesting and farming operations. He is a member of the Pride Ag Resources-Dodge City Coop and the Kalvesta United Methodist Church. Mr. Cossman holds an Associates' Degree in Agriculture from Garden City Community College and is a graduate of Kansas State University with a degree in Animal Science with a Business Option.
Richard Deines	Director. Three-year term expires in 2022. Mr. Deines serves as a member of the Governance Committee and the Compensation Committee, and serves as an alternate on the Executive Committee and the Audit Committee. His principal occupation has been farming for five years or more. Mr. Deines is a member of the Zion Lutheran Church in Trego Center, American Legion and VFW. He was in the U.S. Army and is a Vietnam veteran.
Kenneth Gasper	Director. Three-year term expires in 2021. Mr. Gasper is a member of the Governance Committee and the Compensation Committee, and serves as an alternate on the Executive Committee and the Audit Committee. He has been a farmer/rancher for five years or more with principal enterprises of dry land and irrigated cropland and a cow-calf operation.

Jon Herrmann	Director. Three-year term expires in 2021. Mr. Herrmann is the Vice Chairman of the Governance Committee and serves as a member of the Compensation Committee. Mr. Herrmann also serves as an alternate on the Executive Committee and the Audit Committee. He has been a farmer/rancher for five years or more with principal enterprises of dry land milo, wheat, alfalfa and a cow-calf herd.
Melvin Kitts	Appointed Director. Three-year term expires in 2022. Mr. Kitts is the Chairman of the Audit Committee and serves as an alternate on the Executive Committee. He owns and serves as President for MSHK, Inc., a cattle operation. Mr. Kitts retired in 2013 from a certified public accounting and consulting firm where he was an employee/owner for more than forty years. Mr. Kitts holds a B.S. in Business Administration with an emphasis in accounting from Fort Hays State University.
Danny Koehn	Director. Three-year term expires in 2021. Mr. Koehn is a member of the Governance and Compensation Committees and serves as an alternate on the Executive Committee and the Audit Committee. He has been a farmer/rancher for five years or more with principal enterprises of dry land and irrigated cropland.
Jeannine Mondero	Appointed Director. Three-year term expires in 2021. Mrs. Mondero serves as Vice Chairperson of the Audit Committee and serves as an alternate on the Executive Committee. Mrs. Mondero holds an MBA from Fort Hays State University and is a retired Certified Public Accountant after 36 years of working in public accounting.
E. Vance Shay, Jr.	Director. Three-year term expires in 2021. Mr. Shay serves as Chairman of the Governance Committee and as a member of the Compensation Committee. He also serves as an alternate on the Executive Committee and the Audit Committee. Mr. Shay has been a farmer and stockman for five years or more and is actively involved in the daily operations of his family owned farm, Shay Farms. He holds a B.S. in Agricultural Economics from Fort Hays State University.
Matt Thielen	Director. Three-year term expires in 2022. Mr. Thielen is the Chairman of the Compensation Committee and serves as a member of the Governance Committee. He also serves as an alternate on the Executive Committee and the Audit Committee. He has been engaged in farming for five years or more. His principal enterprises include wheat, milo, backgrounding cattle and a cow/calf operation. He is a partner and owns controlling interest in JP Sons, LLC, a farm/ranch/feedlot enterprise. Mr. Thielen also has a financial interest in J. Thielen Family Trust, a land ownership enterprise. Mr. Thielen is a graduate of Kansas State University and holds a B.S. in Agricultural Business with a Master of Business Administration.
Monte Thom	Director. Three-year term expires in 2020. Mr. Thom is a member of the Audit Committee and serves as an alternate on the Executive Committee. He has been engaged in a full-time, diversified farming operation for five years or more. His principal enterprises include both irrigated and dry land crops which include cotton, corn and wheat. He is a stockholder and owns controlling interest in Thom Land and Cattle, Inc., a farming and stocker cattle enterprise and serves as president. Mr. Thom also has an interest in Spring Hills Ranch, LLC, a family owned ranch operation. Mr. Thom is a graduate of Kansas State University and holds a B.S. in Agricultural Economics.
Ron L. Bach	Director. Three-year term expired in 2019. Mr. Bach was Chairman of the Governance Committee and served as an alternate on the Executive Committee and as an alternate on the Audit Committee. Mr. Bach also served as the District Farm Credit Council representative and as an alternate Association District Advisory Committee member. He has been a farmer/rancher for five years or more with principal enterprises of wheat, milo and cattle. He also serves as Treasurer for Sawlog Township Board and a Director for the Fairmount Cemetery Board.

SENIOR OFFICERS

Kevin Swayne	President/Chief Executive Officer (CEO) – Mr. Swayne was appointed CEO effective January 2017. He has been with the Farm Credit System for the past 24 years and was previously Chief Financial Officer since 2011. Prior to 2011, Mr. Swayne held numerous

	positions in the Finance Division at the former U.S. AgBank from 1995 to 2011. He serves as Chairman of the AgVantis, Inc. Board of Directors and as a member of the Farm Credit Foundations Trust Committee. He is also involved in a farming operation in Northwest Kansas.
Roger Vanlandingham	Chief Credit Officer (CCO) – Mr. Vanlandingham has been with the Farm Credit System for the past 35 years and has been the Senior Vice President of Credit for High Plains since August 2000 and Chief Credit Officer since 2016. Mr. Vanlandingham is involved in a farming and ranching operation in South Central Kansas.
Kelly M. Forell	Chief Financial Officer (CFO) – Mrs. Forell serves as CFO and has been with the Association since December 2018. Mrs. Forell is a Certified Public Accountant and joined High Plains after providing 17 years of public accounting services to Northwest Oklahoma.
Travis Holdeman	Chief Risk Officer (CRO) – Mr. Holdeman serves as CRO. He has been with the Farm Credit System for the past 11 years and has held various positions with the Association since September 2011. Prior to 2011, Mr. Holdeman held numerous positions in the Treasury Division at the former U.S. AgBank from 2008 to 2011.
Robert E. DeWeese	Chief Lending Officer (CLO) – Mr. DeWeese serves as CLO and has been with the Farm Credit System for the past 26 years. Mr. DeWeese has served as Vice President since August 2000 and is involved in a farming and ranching operation in South Central Kansas.

COMPENSATION OF DIRECTORS AND OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $650 per day for approved activities. Approved activities included regular board meetings, special board meetings, and other meetings, conferences, and activities that were authorized by board action. The Board Chairman was compensated an additional $200 per regular board meeting. For regular board meetings only, all directors were compensated for preparation time on a per diem basis at a rate of $100, and reimbursed mileage divided by 50 multiplied by $20 per hour for travel time. While on official business, directors were reimbursed actual miles traveled at the rate of $0.58 cents per mile.

The Compensation and Governance Committee Chairmen were each compensated $100 per meeting. The Audit Committee Chairman was compensated $200 per meeting, and Audit Committee members, excluding the Chairman, were compensated for preparation time on a per diem basis at a rate of $100 for meetings held in conjunction with regular board meetings. Furthermore, directors and committee members were compensated for conference calls on a per diem basis at a rate of $50-$100 per conference call depending on the length of the call.

Additional information for each director follows.

	Number of Days Served at		Compensation for					
Name	Board Meetings	Other Official Duties	Board Meetings And Official Duties	Preparation/ Travel Time	Audit Committee	Compen-sation Committee	Governance Committee	Total Compen-sation Paid During 2019
Craig Gebhard	10	10	$ 14,400	$ 2,079	$ 500	$ –	$ –	$ 16,979
Keith Kennedy	11	15	16,900	2,171	1,000	–	–	20,071
Ron L. Bach	5	5	6,500	730	–	–	200	7,430
Tim Benoit	11	11	14,300	1,905	1,000	–	–	17,205
Howard Boese	10	8	11,700	1,461	–	–	–	13,161
Daniel Cossman	10	11	13,650	1,557	300	–	–	15,507
Richard Deines	10	6	10,400	1,564	–	–	–	11,964
Ken Gasper	11	11	14,300	2,016	–	–	–	16,316
Jon Herrmann	10	15	16,250	1,272	–	–	–	17,522
Melvin Kitts	10	12	13,750	2,187	2,000	–	–	17,937
Danny Koehn	11	16	18,200	1,971	–	–	–	20,171
Jeannine Mondero	11	19	19,500	2,630	1,100	–	–	23,230
E. Vance Shay	11	11	14,300	2,046	–	–	200	16,546
Matt Thielen	11	7	11,700	1,694	–	500	–	13,894
Monte Thom	9	2	7,150	1,615	800	–	–	9,565
Total Compensation			$ 203,000	$ 26,898	$ 6,700	$ 500	$ 400	$ 237,498

Directors and officers 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 $187,171 in 2019, $112,949 in 2018 and $113,390 in 2017. There was no non-cash compensation paid to directors as a group during 2019.

The following table shows information related to preferred stock holdings of Association directors (amounts in thousands):

Name of the Account	Director or Officer	Title	December 31, 2019 Balance	Purchases during 2019	Retirements during 2019
Howard Boese Revocable Trust	Director	Director	$ 100	$ 300	$ 300
Spring Hills Ranch, LLC (Monte Thom)	Director	Director	$ 450	$ 450	–
Danny Koehn	Director	Director	$ 420	$ 420	–

High Plains Farm Credit has a comprehensive policy dealing with the equitable issuance and retirement of its Class H Preferred Stock. The average preferred stock dividend for 2019 was 3.30% for all preferred stockholders. High Plains Farm Credit preferred stock policy prohibits ownership of preferred stock by Association employees.

The Annual Meeting Information Statement is available for public inspection at the Association office. Required senior officer compensation information is included in the Association's Annual Meeting Information Statement mailed to all stockholders. Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included, is available to shareholders by appointment.

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.

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

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

RELATIONSHIP WITH INDEPENDENT AUDITORS

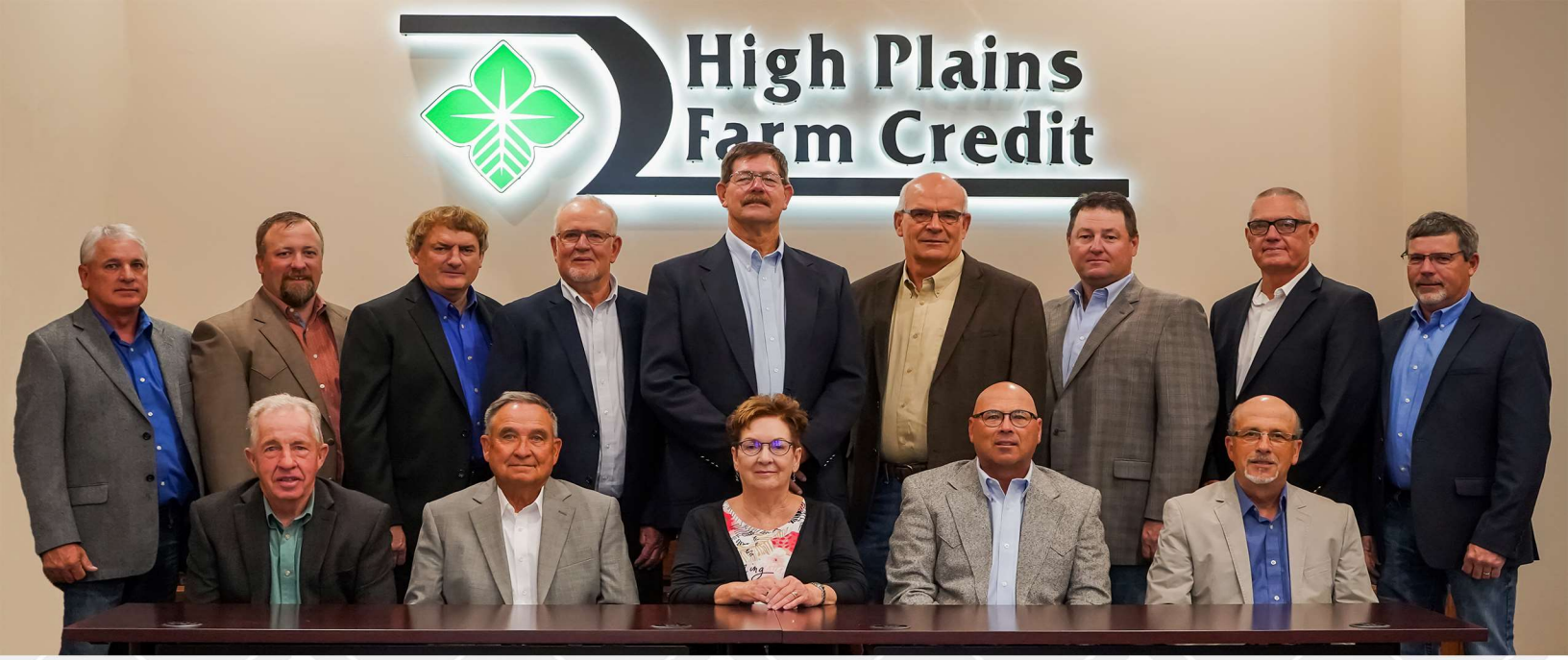
There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

FINANCIAL STATEMENTS

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

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

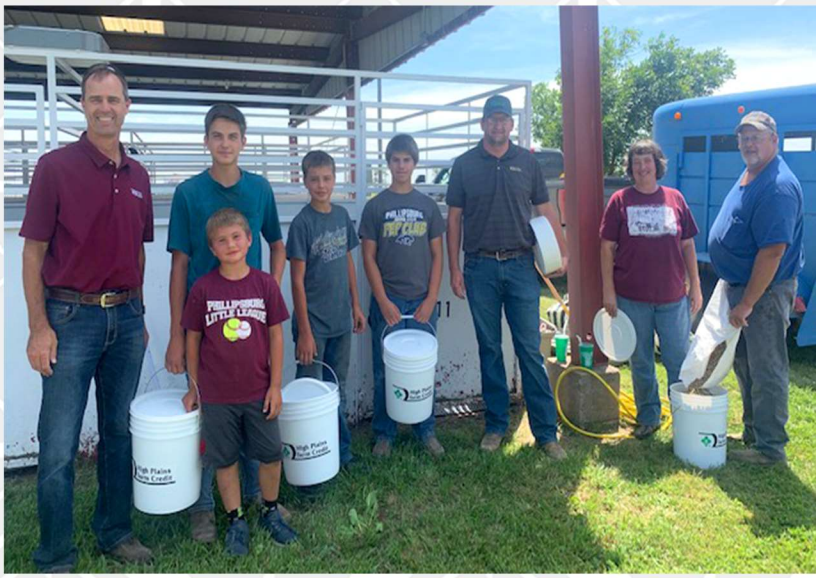
The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2019 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 605 Main, Larned, Kansas 67550-0067, or may be contacted by calling (620) 285-6978. The reports may also be obtained free of charge by visiting CoBank's website at www.CoBank.com.



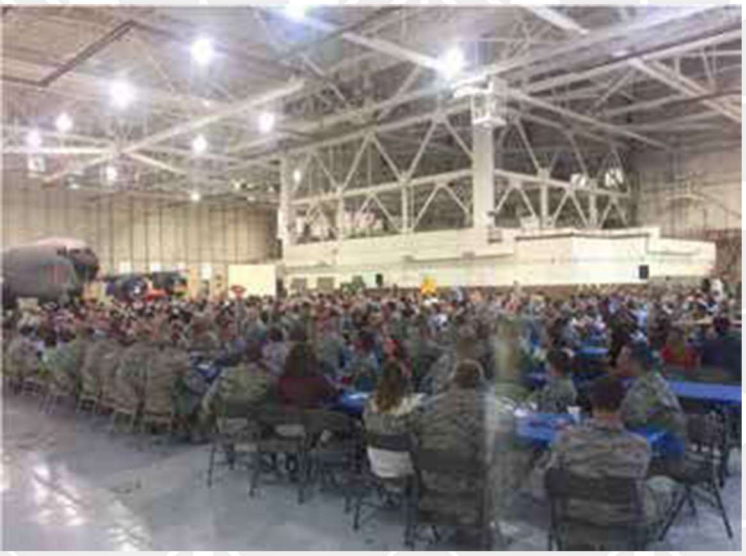
Our Board of Directors

It's About Where We Live

Our mission includes supporting rural America. At High Plains, success has always been about more than the bottom line. As a mission-based lender, High Plains Farm Credit is committed to being a good and caring neighbor.



HPFC staff handing out 5 gallon buckets to 4-H members & their families



HPFC donated $10,000 to the All-American Beef Batallion. Directors & employees served steak dinners to the troops & their families.

We are a committed supporter of the rural communities where we live and work alongside our customers. Long-established cooperative principles allow us the privilege to be actively engaged in industries and programs important to our customers.

Over $125,000 donated to our communities in 2019