2020

ANNUAL REPORT

High Plains Farm Credit

Our Mission

Our cooperative structure helps assure reasonable priced credit will be available during both good times and bad. With over 60 employees, we serve 1,700 farmers and ranchers with a sole focus of helping them & their operation achieve success here in Kansas.

Our Stockholders Make It Possible

$ In Millions | Percentage Paid

***Record patronage in 2020**

Our borrowers are our owners and they drive the success of our association. Since 2016, we've returned more than 46 MILLION in cash patronage back to our farmers and ranchers. That's why we're the preferred lender for agricultural loans.

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

We are pleased to present the High Plains Farm Credit 2020 Annual Report. The strong results of our cooperative are evident in our earnings, capital position, patronage and competitive interest rates. Our 2020 financial performance reflects $26.3 million in net income, which is a 9.9% return on shareholders' equity. Credit quality improved to 96.3% of total loans and our capital position increased to over $265 million.

Our financial strength allows High Plains Farm Credit to remain a reliable source of credit for agriculture and provide dividends to our stockholders. In 2020, your member-elected Board of Directors declared a record $12.9 million cash patronage which reduces 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.

While delivering strong financial performance is important, it isn't the only measure of success. 2020 was a challenging year marked by historical and unforeseen events. High Plains Farm Credit worked harder than ever to help our stockholders. Disaster relief programs like the payment deferral program and Paycheck Protection Program helped our stockholders strengthen their financial position. Our refinancing program helped farmers and ranchers take advantage of record low interest rates which reduced their expenses by nearly $40 million. These savings are now available to help our stockholders invest in their operations and enhance their respective rural communities.

High Plains Farm Credit is mindful that agriculture has and will continue to see volatile times. As a member of the national Farm Credit System, High Plains Farm Credit's vision is to "be the preferred source of agricultural financing". We understand your success is our success and share your passion for agriculture.

Thank you for choosing High Plains Farm Credit and for contributing to our success. High Plains Farm Credit is committed to being a dependable source of credit and a proud, trusted partner in your operation. We look forward to serving you for many years to come.

Sincerely,

Craig Gebhard
Chairman – Board of Directors

Kevin Swayne
President and Chief Executive Officer

Part of the Farm Credit System with offices in Dodge City, Hays, Larned, Ness City, Phillipsburg, & Pratt

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2020	2019	2018	2017	2016
Statement of Condition Data					
Loans	**$ 1,369,160**	$ 1,239,480	$ 1,157,565	$ 1,056,849	$ 710,632
Less allowance for loan losses	**3,205**	3,026	2,831	2,449	1,424
Net loans	**1,365,955**	1,236,454	1,154,734	1,054,400	709,208
Investment in dealer notes	**-**	-	-	1,109	1,224
Investment in CoBank, ACB	**46,893**	43,084	40,373	38,477	26,000
Other assets	**49,759**	62,451	48,029	42,843	24,043
Total assets	**$ 1,462,607**	$ 1,341,989	$ 1,243,136	$ 1,136,829	$ 760,475
Obligations with maturities of one year or less	**$ 43,490**	$ 39,647	$ 27,537	$ 17,909	$ 11,551
Obligations with maturities longer than one year	**1,152,926**	1,049,223	977,243	900,300	612,002
Reserve for unfunded commitments	**702**	547	442	434	848
Total liabilities	**1,197,118**	1,089,417	1,005,222	918,643	624,401
Protected borrower stock	**-**	-	-	-	1
Preferred stock	**5,025**	5,672	5,050	3,453	3,494
Capital stock	**1,777**	1,744	1,794	1,818	1,148
Additional paid-in capital	**69,380**	69,380	69,380	69,380	-
Unallocated retained earnings	**189,307**	175,973	161,986	143,949	131,832
Accumulated other comprehensive income/(loss)	**-**	(197)	(296)	(414)	(401)
Total shareholders' equity	**265,489**	252,572	237,914	218,186	136,074
Total liabilities and shareholders' equity	**$ 1,462,607**	$ 1,341,989	$ 1,243,136	$ 1,136,829	$ 760,475

	For the Year Ended December 31				
	2020	2019	2018	2017	2016
Statement of Income/(Expense) Data					
Net interest income	**$ 33,129**	$ 32,209	$ 30,505	$ 21,297	$ 18,577
Patronage distribution from Farm Credit institutions	**7,109**	6,207	7,503	5,764	5,445
Provision for credit losses	**(338)**	(308)	(401)	(620)	(832)
Noninterest expense, net	**(13,525)**	(11,288)	(10,147)	(10,018)	(8,513)
(Provision for)/Benefit from income taxes	**(53)**	(132)	133	181	(309)
Net income	**$ 26,322**	$ 26,688	$ 27,593	$ 16,604	$ 14,368
Comprehensive income	**$ 26,519**	$ 26,787	$ 27,711	$ 16,591	$ 14,411
Key Financial Ratios					
For the Year					
Return on average assets	**1.95%**	2.13%	2.35%	1.95%	1.89%
Return on average shareholders' equity	**9.90%**	10.57%	11.82%	10.30%	10.81%
Net interest income as a percentage of average earning assets	**2.60%**	2.74%	2.76%	2.66%	2.60%
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	**18.15%**	18.82%	19.14%	19.19%	17.89%
Debt as a ratio to shareholders' equity	**4.51:1**	4.31:1	4.23:1	4.21:1	4.59:1
Allowance for loan losses as a percentage of loans and dealer notes	**0.23%**	0.24%	0.24%	0.23%	0.20%
Common equity tier 1 (CET1) capital ratio	**15.56%**	16.02%	16.05%	15.43%	N/A
Tier 1 capital ratio	**15.56%**	16.02%	16.05%	15.43%	N/A
Total regulatory capital ratio	**15.83%**	16.28%	16.31%	15.70%	N/A
Tier 1 leverage ratio	**16.40%**	16.72%	16.65%	15.97%	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**18.59%**	18.85%	18.79%	18.20%	N/A
Permanent capital ratio	**15.95%**	16.49%	16.54%	15.74%	15.16%
Total surplus ratio	**N/A**	N/A	N/A	N/A	14.54%
Core surplus ratio	**N/A**	N/A	N/A	N/A	14.54%
Net Income Distribution					
Cash patronage distributions paid	**$ 12,500**	$ 9,400	$ 4,400	$ 3,000	$ 2,300
Cash patronage declared	**$ 12,900**	$ 12,500	$ 9,400	$ 4,400	$ 3,000
Preferred stock dividends declared	**$ 88**	$ 201	$ 156	$ 87	$ 78

Unaudited

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, 2020. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- 2020 Highlights
- Our Structure
- 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, KS 67550-0067 or may be contacted by calling (620) 285-6978.

2020 HIGHLIGHTS

- Loan volume increased $129.7 million dollars, or 10.5%.
- Net income was $26.3 million.
- In December, the Board approved a record $12.9 million cash patronage distribution to stockholders.
- Total shareholders' equity increased by $12.9 million to $265.5 million after recording the liability for the $12.9 million cash patronage distribution to stockholders.

OUR STRUCTURE

Farm Credit System Structure and Mission

As of December 31, 2020, 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 provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region 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 Mead 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, KS 67550-0067 or calling (620) 285-6978. Annual reports are available within 75 days after year-end and quarterly reports are available within 40 days after the calendar quarter end.

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

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 team guidance and aids in our drive to provide exceptional service and value to our stockholders.

Changes in Leadership

Kelly Forell served as Chief Financial Officer from December 2018 through January 2021. John Booze, Vice President-Controller, assumed the Chief Financial Officer position effective February 1, 2021.

ECONOMIC OVERVIEW

Our financial condition can be directly impacted by factors affecting the 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 States 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.

During 2020, economic conditions in our region were uncertain as the global pandemic did not spare rural Kansas. Travel restrictions across the nation decreased fuel and oil prices resulting in reduced ethanol production in our territory, layoffs at local oil companies and reduced noninterest mineral income to the Association. Packing plant capacity reduced, which resulted in livestock being backed up at feed yards and hog facilities. The Federal Reserve took immediate action upon the national emergency declaration and lowered the target range for the federal funds rate to 0.00 to 0.25 percent. With a goal of achieving maximum employment and inflation at the rate of 2.00 percent over the long run, the range is expected to hold steady throughout 2021.

The effects of the COVID-19 pandemic could have a materially adverse effect on our Association's business, results of operations and financial condition. The COVID-19 pandemic rapidly evolved from a global public health crisis into a global economic crisis. Actions by government authorities to stem the spread of the disease shut down entire sectors of the global economy, forcing millions of people out of work, and precipitated a contraction in economic output. In the United States, the Federal Reserve deployed a full range of emergency monetary stimulus tools to ensure the financial system continued to function. The administration and Congress have also passed aggressive fiscal stimulus measures. As states and cities have re-opened, certain areas of the country have experienced a substantial increase in cases. It remains to be seen how effective these policy responses will be given the unique attributes of the continuing pandemic.

The COVID-19 pandemic has heightened many risks, including credit risk, liquidity risk, market risk, and operational risk. The effectiveness of our mitigation efforts and the extent to which COVID-19 affects our business, results of operations and financial condition may depend on factors beyond our control. The U.S. government has initiated various programs in support of the COVID-19 economic recovery. In late March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act. Among other provisions, the CARES Act made funds available for small businesses under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the Small Business Administration (SBA). On December 21, 2020, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which, among other provisions, allocated additional funding for PPP loans and allows certain existing PPP borrowers to apply for additional loans or draws on existing loans. Our Association obtained approval from the SBA to participate as a lender in the PPP and successfully processed over $6.0 million in PPP loans for our stockholders in round one of the program in 2020. We continue to lend under the second round of government funding for PPP loans during the first quarter of 2021. Congress also provided additional funding for small business disaster loans and direct payments to farmers and ranchers in Coronavirus Food Assistance Programs (CFAP 1 and 2) as a result of the COVID-19 pandemic as well as making purchases of agriculture products. In addition, we also processed over 200 loan deferments to defer over $8.5 million of principal payments for our stockholders.

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

U.S. Agricultural Overview

The December 2020 USDA forecast estimates 2020 farmers' net cash income (a measure of the cash income after payment of business expenses) at $134.1 billion, up $24.7 billion from 2019. The increase in 2020 net cash income was primarily due to a $24.0 billion increase in direct government farm payments in response to the COVID-19 pandemic, while total production expenses remained relatively flat and interest expenses declined by almost 26%. Average prices received by farmers in December of 2020 compared to average prices in December of prior years are reflected in the following chart based on USDA data:

Average Commodity Prices

Commodity	**December 2020**	December 2019	December 2018	December 2017	December 2016	December 2015
Wheat	**$ 5.43**	$ 4.64	$ 5.28	$ 4.51	$ 3.91	$ 4.75
Corn	**$ 3.97**	$ 3.71	$ 3.54	$ 3.23	$ 3.33	$ 3.65
Soybeans	**$ 10.50**	$ 8.70	$ 8.56	$ 9.30	$ 9.64	$ 8.76
Sorghum	**$ 5.01**	$ 3.16	$ 3.18	$ 3.07	$ 2.64	$ 3.23
Hay	**$ 155.00**	$ 158.00	$ 166.00	$ 136.00	$ 126.00	$ 139.00
Cotton	**$ 0.66**	$ 0.62	$ 0.73	$ 0.69	$ 0.68	$ 0.61
Beef Cattle	**$ 108.00**	$ 118.00	$ 117.00	$ 118.00	$ 111.00	$ 122.00

The USDA's February 2021 outlook for the farm economy, as a whole, forecasts 2021 farmers' net cash income to fall to $128.3 billion, a $7.9 billion decrease from 2020 estimates. The projected decrease in farmers' net cash income from 2020 to 2021 is primarily due to the forecasted declines in supplemental and ad hoc disaster assistance for COVID-19 relief. A projected $8.6 billion increase in production expenses attributed to higher spending on feed, fertilizer and labor also contributes to the overall decline for 2021.

Association Agricultural Overview

Producers in our rural territories did not escape the effects of the COVID-19 global disruption. Producers experienced extremely volatile markets; however, for 2020, the USDA projected net farm income to increase 43.1% from 2019 mostly attributed to direct government payments in response to the pandemic. Even with the increased projected net farm income, borrowers showed stress in their repayment capacity due to historically suppressed incomes having eroded working capital and equity. Abnormally dry to moderate drought conditions affected most of our territory, forcing many stockholders to continue utilizing crop insurance to protect their financial position. Winter wheat is 37% in fair condition or better with 1.6 million more acres planted this season; however, it is still the fourth lowest on record. This is the first acreage increase since 2013 with almost 75% of the national Hard Red Winter (HRW) acreage being in Kansas. Cattle prices were volatile as feed grain prices surged, tempering livestock inventories. Beef exports, however, increased about 13% at year-end due to increased purchases from China.

Cash Grains: Growing conditions remained relatively good throughout the territory, with some northern areas experiencing subpar fall crops due to lack of rainfall in the second half of 2020. All grain stocks were down at the end of 2020 due to late-season drought and wind damage impacting production more than initially realized earlier in the year. Kansas farmers continue to evaluate pricing opportunities, crop rotations, water resources and crop insurance programs to deal with varying growing options. The decrease in supply has bolstered prices and should remain steady as long as exports continue to remain at year-end levels and the U.S. dollar does not re-gain value too quickly.

Hay: A dry fall and mild winter may present some challenges for grazing in the spring and summer of 2021. 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: With extreme volatility throughout 2020 in all animal protein sectors, cattle producers battled against large front-end supplies as processing facility kill rates remained below prior year levels throughout 2020. Most producers are utilizing a risk protection program to guard against increased feed grain costs, feeder supply and continued weak basis as the cash market underperformed most of the year.

Real Estate: Real estate values in our territory show a slight recovery in the market most likely due to the recovery of commodity markets and an increase in recreational sales. Conservation Reserve Program (CRP) real estate increased almost 12% and pasture saw a nice rebound from prior year to an increase of 6%. Irrigated and good crop ground showed slight declines while fair crop ground showed a slight increase. The COVID-19 pandemic added a new element to auctions as many sales were conducted virtually. Cropland and pasture rental rates held steady.

LOAN PORTFOLIO

Total loans outstanding were $1.37 billion at December 31, 2020, an increase of $129.7 million, or 10.5%, from loans at December 31, 2019 of $1.24 billion, and an increase of $211.6 million, or 18.3%, from loans at December 31, 2018 of $1.16 billion. The increase in loans was primarily due to increased loan demand from existing and new borrowers, as well as loan participation purchase opportunities to diversify our portfolio. The types of loans outstanding at December 31 are reflected in the following table.

	2020		2019		2018	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage	**$ 806,613**	**58.9%**	$ 741,527	59.8%	$ 734,857	63.5%
Production and intermediate-term	**402,374**	**29.4%**	389,760	31.5%	335,246	29.0%
Agribusiness	**133,890**	**9.8%**	101,566	8.2%	83,712	7.2%
Rural infrastructure	**26,018**	**1.9%**	6,302	0.5%	3,246	0.3%
Rural residential real estate	**265**	–	325	–	504	–
Total	**$1,369,160**	**100.0%**	$1,239,480	100.0%	$1,157,565	100.0%

Real estate mortgage loans outstanding increased 8.8% to $806.6 million, compared with $741.5 million at year-end 2019, primarily due to new loan originations and 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 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 3.2% to $402.4 million, compared with 2019 loans of $389.8 million, primarily due to increased loan demand from 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 attributable to loan participations purchased. 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 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)	**2020**	2019	2018
Participations purchased	**$296,250**	$211,390	$129,514
Participations sold	**$304,512**	$319,720	$312,128

Participations purchased loan volume increased due to new loan purchases through our partnership with the AgVantis Participations Partners (APP) group.

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 the “Other” categories in the following table.

	2020	2019	2018
Barber	**1.83%**	2.11%	1.99%
Barton	**3.00%**	3.65%	3.57%
Clark	**0.08%**	0.05%	0.05%
Comanche	**0.02%**	0.03%	0.04%
Ellis	**2.28%**	2.63%	2.78%
Edwards	**3.46%**	3.45%	3.84%
Ford	**4.06%**	4.17%	3.87%
Gove	**3.52%**	3.58%	3.73%
Graham	**1.03%**	1.17%	1.34%
Hodgeman	**4.47%**	4.32%	4.49%
Kiowa	**1.11%**	0.98%	1.21%
Lane	**2.27%**	2.77%	4.28%
Meade	**0.77%**	0.94%	0.98%
Ness	**1.94%**	2.04%	2.26%
Norton	**1.48%**	1.39%	1.58%
Osborne	**0.71%**	0.84%	0.90%
Pawnee	**1.79%**	2.11%	2.22%
Phillips	**3.62%**	4.25%	4.42%
Pratt	**1.35%**	1.17%	1.47%
Rooks	**1.62%**	1.80%	2.00%
Rush	**0.77%**	0.80%	0.86%
Russell	**1.30%**	1.32%	1.44%
Sheridan	**2.79%**	3.27%	3.76%
Smith	**1.90%**	2.26%	2.51%
Stafford	**2.01%**	2.20%	2.30%
Trego	**1.18%**	1.21%	1.52%
Other - Kansas	**29.41%**	29.16%	30.11%
Other	**20.23%**	16.33%	10.48%
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 earlier to occur of:

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.

	December 31		
SIC Category	**2020**	2019	2018
Cash grains	**42.29%**	42.17%	47.43%
Livestock	**42.78%**	46.13%	43.04%
Ag Services	**11.12%**	10.27%	8.66%
Other	**3.81%**	1.43%	0.87%
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, 2020, approximately 50% consists of borrowers with income not solely from agricultural sources, a decrease from 57% for 2019, and 59% for 2018.

The loans outstanding at December 31, 2020 for loans $250 thousand or less accounted for 16.6% of loan volume and 69.9% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loans outstanding by dollar size at December 31 for the last three years.

	2020		2019		2018	
(dollars in thousands)	**Amount outstanding**	**Number of loans**	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	**$ 227,009**	**2,550**	$ 224,687	2,571	$ 232,856	2,599
$251 - $500	**191,322**	**554**	188,550	541	190,827	545
$501 - $1,000	**186,873**	**269**	189,648	270	190,312	269
$1,001 - $5,000	**492,946**	**241**	425,890	208	399,944	198
$5,001 - $25,000	**271,010**	**36**	210,705	24	143,626	19
Total	**$ 1,369,160**	**3,650**	$1,239,480	3,614	$ 1,157,565	3,630

As of December 31, 2020, approximately 19% 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 $24.0 million at December 31, 2020, $19.3 million at December 31, 2019 and $18.7 million at December 31, 2018. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $77 thousand in 2020, $72 thousand in 2019 and $74 thousand in 2018. 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 $8.4 million at year-end 2020, $8.6 million at year-end 2019 and $8.7 million at year-end 2018 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. During 2020, the Association's credit guarantees with government agences also included loans guaranteed at 100% with SBA.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments 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, 2020.

(dollars in thousands)	Due 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total
Commitments to extend credit	$ 247,623	$ 44,923	$ 19,146	$ 23,267	$ 334,959
Standby letters of credit	631	–	–	–	631
Commercial letters of credit	168	–	27	–	195
Total commitments	$ 248,422	$ 44,923	$ 19,173	$ 23,267	$ 335,785

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

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	**2020**	2019	2018
Young	11.48%	**17.37%**	17.77%	17.84%
Beginning	25.33%	**20.99%**	20.39%	20.95%
Small	78.40%	**44.59%**	45.12%	44.18%

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 52.58% for 2020, 53.59% for 2019 and 54.92% for 2018. The following table represents the total number of loans in our portfolio by YBS category.

Total Number of Loans	**2020**	2019	2018
Young	**499**	645	649
Beginning	**603**	763	762
Small	**1,281**	1,571	1,609

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	2020 Goals Percent of Total
Young	**147**	15.46%	15%
Beginning	**199**	20.93%	15%
Small	**334**	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)	**2020**	2019	2018
Nonaccrual loans:			
Real estate mortgage	**$ 1,594**	$ 4,696	$ 1,896
Production and intermediate-term	**192**	243	274
Rural residential real estate	**38**	–	–
Total nonaccrual loans	**1,824**	4,939	2,170
Accruing restructured loans:			
Real estate mortgage	**509**	–	–
Total accruing restructured loans	**509**	–	–
Total high risk assets	**$ 2,333**	$ 4,939	$ 2,170
Nonaccrual loans to total loans	**0.13%**	0.40%	0.19%
High-risk assets to total loans	**0.17%**	0.40%	0.19%
High-risk assets to total shareholders' equity	**0.88%**	1.96%	0.91%

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

Total high-risk assets decreased $2.6 million, or 52.8%, to $2.3 million at December 31, 2020 compared with year-end 2019. The decrease in high-risk assets in 2020 was primarily due to the decrease in nonaccrual loans. Another contributing factor includes improved credit quality in our portfolio.

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. Nonaccrual volume decreased $3.1 million compared with December 31, 2019 primarily due to the payoff of seven nonaccrual loans in excess of $2.7 million. At December 31, 2020, 17 loans were nonaccrual. Three of these loans account for approximately 47% 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)	**2020**	2019	2018
Nonaccrual loans current as to principal and interest	**$ 1,388**	$ 2,147	$ 2,124
Cash basis nonaccrual loans	**$ 263**	$ 253	$ 278
Restructured loans in nonaccrual status	**$ 53**	$ 536	$ 607

Accruing restructured loans, which includes accrued interest, increased $509 thousand during 2020 primarily as a result of regular payments and good performance. The accruing restructured loans include only the year-end balances of loans and related accrued interest on which monetary concessions have been granted to borrowers and that are in accrual status. Accruing restructured loans do not include loans on which monetary concessions have been granted but which remain in nonaccrual status.

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:

	2020	2019	2018
Acceptable	**91.82%**	89.89%	90.15%
OAEM	**4.49%**	6.17%	6.58%
Substandard	**3.69%**	3.94%	3.27%
Total	**100.00%**	100.00%	100.00%

During 2020 overall credit quality improved. Loans classified as Acceptable and OAEM were 96.31% at December 31, 2020, 96.06% at December 31, 2019 and 96.73% at December 31, 2018. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans decreased and remained at a low level of 0.05% at December 31, 2020, compared with 0.23% at December 31, 2019 and 0.03% at December 31, 2018.

Allowance for Loan Losses

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

The following table provides relevant information regarding the allowance for loan losses as of December 31 for the last three fiscal years:

(dollars in thousands)	**2020**	2019	2018
Balance at beginning of year	**$ 3,026**	$ 2,831	$ 2,449
Charge-offs:			
Real estate mortgage	**–**	(4)	(23)
Production and intermediate-term	**(4)**	(4)	(4)
Total charge-offs	**(4)**	(8)	(27)
Recoveries:			
Real estate mortgage	**–**	–	16
Total recoveries	**–**	–	16
Net charge offs	**(4)**	(8)	(11)
Provision for loan losses	**183**	203	393
Balance at December 31	**$ 3,205**	$ 3,026	$ 2,831
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)	**2020**	2019	2018
Real estate mortgage	**$ 709**	$ 799	$ 746
Production and intermediate-term	**2,183**	2,096	1,999
Agribusiness	**274**	122	86
Rural Infrastructure	**39**	9	–
Total	**$ 3,205**	$ 3,026	$ 2,831

The allowance for loan losses increased $179 thousand from December 31, 2019, to $3.2 million at December 31, 2020. The increase in allowance for loan losses was primarily due to the provision for loan losses totaling $183 thousand that was recorded due to an increase in loan volume and increased risk in the overall portfolio. Net charge-offs of $4 thousand were recorded during 2020. Overall, charge-off activity remains low relative to the size of our loan portfolio. During 2019, our allowance for loan losses increased $195 thousand from 2018 primarily due to 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.

	2020	2019	2018
Allowance for loan losses as a percentage of:			
Loans	**0.23%**	0.24%	0.24%
Impaired loans	**137.38%**	61.27%	130.46%
Nonaccrual loans	**175.71%**	61.27%	130.46%

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

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

(dollars in thousands)	**2020**	2019	2018
Balance at beginning of year	**$ 547**	$ 442	$ 434
Provision for reserve for unfunded commitments	**155**	105	8
Total	**$ 702**	$ 547	$ 442

The increase in provision for reserve for unfunded commitments in 2020 and 2019 is 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, 2020, all individual loan commitments were below 11.2%.

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

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

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

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

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

RESULTS OF OPERATIONS

Earnings Summary

In 2020, we recorded net income of $26.3 million, compared with $26.7 million in 2019, and $27.6 million in 2018. The decrease in 2020 was primarily due to $1.3 million in prepayment fees due to rate conversions which directly benefited the stockholders with lower interest rates. These fees were partially offset by an increase in net interest income. The decrease in 2019 was primarily due to the reduction in patronage distributions 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 following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net income, prior year	**$ 26,688**	$ 27,593
Increase/(Decrease) from changes in:		
Interest income	**(8,081)**	5,065
Interest expense	**9,001**	(3,361)
Net interest income	**920**	1,704
Provision for credit losses	**(30)**	93
Noninterest income	**1,054**	(1,574)
Noninterest expense	**(2,389)**	(863)
Provision for income taxes	**79**	(265)
Total decrease in net income	**(366)**	(905)
Net income, current year	**$ 26,322**	$ 26,688

Return on average assets decreased to 1.95% from 2.13% in 2019, and return on average shareholders' equity decreased to 9.90% from 10.57% in 2019. The decreases are primarily due to lower net income and loan volume growth driving the increase in total average assets. Average assets increased 7.96% and average shareholders' equity increased 5.28% while net income decreased 1.37%.

Net Interest Income

Net interest income for 2020 was $33.1 million compared with $32.2 million for 2019 and $30.5 million for 2018. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to loan volume growth that began in 2018 and continued through 2020. The following table provides an analysis of the individual components of the change in net interest income during 2020 and 2019.

(dollars in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net interest income, prior year	**$ 32,209**	$ 30,505
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(12,340)**	1,543
Interest rates paid	**10,461**	(1,794)
Volume of interest-bearing assets and liabilities	**2,517**	1,988
Interest income on nonaccrual loans	**282**	(33)
Increase in net interest income	**920**	1,704
Net interest income, current year	**$ 33,129**	$ 32,209

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

	For the Year Ended December 31		
	2020	2019	2018
Net interest margin	**2.60%**	2.74%	2.76%
Interest rate on:			
Average loan volume	**4.05%**	5.07%	4.94%
Average debt	**1.71%**	2.76%	2.57%
Interest rate spread	**2.34%**	2.31%	2.37%

The increase in interest rate spread resulted from a 102 basis point decrease in interest rates on average loan volume and a 105 basis point decrease in interest rates on average debt. The decrease in net interest margin was due to lower earnings on our own capital, partially offset by the increase in interest rate spread.

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 commitments 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 $338 thousand in 2020, compared with $308 thousand in 2019 and $401 thousand in 2018. The provision for loan losses of $183 thousand recorded during 2020 was primarily due to an increase in loan volume and increased risk in the overall portfolio. The provision for reserve for unfunded commitments of $155 thousand was recorded during 2020 due to an increase in loan volume and increased risk in the overall portfolio. 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 was 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.

Noninterest Income

During 2020, we recorded noninterest income of $9.0 million, compared with $8.0 million in 2019 and $9.5 million in 2018. Patronage distributions from CoBank are our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. The total patronage from CoBank is comprised of two sources: patronage based on our borrowing balance (direct note patronage) and patronage based on loans we originate and then sell a portion to them as a participant (sold volume patronage). Patronage earned from CoBank was $7.1 million in 2020 which includes additional patronage distribution from CoBank of $1.2 million due to CoBank's strong capital levels and financial results. Patronage earned from CoBank was $6.2 million in 2019, and $7.5 million in 2018 which included a special cash patronage distribution of $1.0 million relating to tax reform changes.

During August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of market place challenges. The changes were intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The plan included a reduction to our patronage income in 2018 of 5 basis points on participation loans with CoBank. Additionally, the changes include a reduction in patronage related to our direct note with CoBank for all other loans of 5 basis points in 2019 and a further reduction of 4 basis points in 2020. During 2020, we received 95 basis points on participation loans and 36 basis points on our direct note with CoBank for all other loans. In 2019, we received 95 basis points on participation loans and 40 basis points on our direct note with CoBank for all other loans. In 2018, we received 95 basis points on participation loans and 45 basis points on our direct note with CoBank for all other loans. These basis points are before any special patronage distributed by CoBank. In addition, CoBank has indicated our patronage income related to our direct note with CoBank will be 39 basis points in 2021, 36 basis points in 2022 and 33 basis points in 2023.

In 2020, we recorded a cash patronage of $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 $9 thousand recorded in 2019 and $7 thousand in 2018. Patronage from Farm Credit Foundations and CoBank is included in patronage distribution from Farm Credit institutions on the Consolidated Statement of Comprehensive Income.

We received a refund of $276 thousand during 2020, $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 $378 thousand during 2020, which is distributed to us quarterly by CoBank. Mineral income decreased from $563 thousand in 2019 and $517 thousand in 2018. The decrease is attributed to the rapid oil demand destruction caused by the pandemic, plummeting crude oil prices, low natural gas prices, and decreased drilling activity and production.

Loan fees increased $272 thousand in 2020, compared with 2019, primarily due to participation purchase loan activity.

Noninterest Expense

Noninterest expense for 2020 increased $2.4 million, or 18.3%, to $15.4 million compared with 2019 and $3.3 million, or 26.7% compared with 2018. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	**2020**	2019	2018	**2020/2019**	2019/2018
Salaries & employee benefits	**$ 7,464**	$ 6,518	$ 6,310	**14.51%**	3.30%
Occupancy & equipment	**563**	515	488	**9.32%**	5.53%
Purchased services from AgVantis	**2,183**	2,041	1,809	**6.96%**	12.82%
Supervisory & examination costs	**419**	410	414	**2.20%**	(0.97%)
Other	**2,532**	2,722	2,363	**(6.98%)**	15.19%
Total operating expense	**13,161**	12,206	11,384	**7.82%**	7.22%
Farm Credit Insurance Fund premium	**954**	839	755	**13.71%**	11.13%
Prepayment expense	**1,319**	–	43	**100.00%**	(100.00%)
Total noninterest expense	**$15,434**	$13,045	$12,182	**18.31%**	7.08%

For the year ended December 31, 2020, total operating expense increased $955 thousand, or 7.8%, compared with the year ended December 31, 2019, primarily due to an increase in salaries and employee benefits of $946 thousand related to an increase of $744 thousand in qualified pension expense due to changes in certain plan assumptions. Also impacting salaries and employee benefits were increases associated with employee health benefits and additional staff added in 2020. Other expenses decreased in 2020 $190 thousand primarily due to directors expense, travel expense and training expense related to COVID-19 restrictions. Insurance Fund premium increased $115 thousand to $954 thousand at December 31, 2020 due to an increase in average loan volume. The premium rate remained constant from 2018. Additionally, we recorded excess prepayment expense of $1.3 million during 2020 due to fees charged by CoBank related to excess loan prepayments, primarily from loan conversions that have resulted from the low interest rate environment in the wake of the COVID-19 pandemic. Prepayment expense recorded in 2018 was a $43 thousand fee to CoBank as we terminated fixed term investments acquired in the merger with Farm Credit of Ness City to align with our pro-rata equity positioning strategy.

Provision for income taxes/Benefit from income taxes

We recorded $53 thousand in provision for income taxes during 2020, compared with provision for income taxes of $132 thousand in 2019 and benefit from income taxes of $133 thousand in 2018. The decrease in 2020 was primarily due to less taxable income in 2020 from nonpatronage sources due to the lower rate environment. Tax expense was also impacted by our patronage refund program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2 for additional details.

LIQUIDITY

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

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank, which matures on December 31, 2022. The annual average principal balance of the note payable to CoBank was $1.1 billion in 2020, $979.5 million in 2019 and $926.7 million in 2018.

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

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank 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 fixed term 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.

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

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 phaseout of LIBOR.

We continue to analyze potential risks associated with the LIBOR transition, including financial, operational, legal, tax, reputational and compliance risks. 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, including any updates to processes and loan servicing technology, 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, 2020 totaled $265.5 million, compared with $252.6 million at December 31, 2019 and $237.9 million at December 31, 2018. The increase of $12.9 million in shareholders' equity reflects net income and a decrease in accumulated other comprehensive loss, offset by patronage refunds, net stock retirements, and dividends declared. Our capital position is reflected in the following ratio comparisons.

	2020	2019	2018
Debt to shareholders' equity	**4.51:1**	4.31:1	4.23:1
Shareholders' equity as a percent of net loans	**19.44%**	20.43%	20.60%
Shareholders' equity as a percent of total assets	**18.15%**	18.82%	19.14%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2019. Debt to shareholders' equity increased primarily due to an increase in the note payable to CoBank attributable to the increase in loan volume . 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 $13.3 million to $189.3 million at December 31, 2020 from $176.0 million at December 31, 2019 and increased $27.3 million from $162.0 million at December 31, 2018. The increase in 2020 was a result of net income of $26.3 million, partially offset by $12.9 million of patronage distributions declared and preferred stock dividends declared of $88 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 $12.5 million in 2020, $9.4 million in 2019 and $4.4 million in 2018. During 2020, we declared patronage distributions of $12.9 million to be paid in March 2021.

Capital Stock

Our capital stock increased $33 thousand to $1.8 million at December 31, 2020, from $1.7 million at December 31, 2019 and decreased from $1.8 million at December 31, 2018. The increase during 2020 was due to $148 thousand of stock issuances, partially offset by $115 thousand of stock retirements. We require a stock investment for each borrower. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.00% of the collective total balance of each borrower's loan(s).

Preferred Stock

Our common equity holders may voluntarily invest in our preferred stock program. At December 31, 2020, there was $5.0 million of preferred stock outstanding, compared with $5.7 million at December 31, 2019 and $5.1 million at December 31, 2018. Purchases are limited to $1 million per shareholder. For a complete discussion of our stock programs, see Note 7 of the accompanying consolidated financial statements.

Accumulated Other Comprehensive Income or Loss

We had no accumulated other comprehensive loss at December 31, 2020, compared with $197 thousand at year-end 2019 and $296 thousand at year-end 2018. As of December 31, 2020, we no longer had any employees participate in a non-qualified Defined Benefit Pension Restoration Plan (Plan). Accounting guidance requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to accumulated other comprehensive income/loss.

Capital Plan and Regulatory Requirements

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

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

As shown in the following table, at December 31, 2020, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends.

	2020	2019	2018	2017	Minimum Requirement with Buffer
Common Equity Tier 1 Capital ratio	**15.56%**	16.02%	16.05%	15.43%	7.00%
Tier 1 Capital ratio	**15.56%**	16.02%	16.05%	15.43%	8.50%
Total Capital ratio	**15.83%**	16.28%	16.31%	15.70%	10.50%
Tier 1 Leverage ratio	**16.40%**	16.72%	16.65%	15.97%	5.00%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage ratio	**18.59%**	18.85%	18.79%	18.20%	1.50%
Permanent capital ratio	**15.95%**	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, 2020, we have exceeded our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

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

	2016	Regulatory Minimum
Permanent capital ratio	15.16%	7.00%
Total surplus ratio	14.54%	7.00%
Core surplus ratio	14.54%	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. The expansion of the Pratt office was complete in February 2020. In October 2020, the Board of Directors approved the purchase of a lot for a future building location in Dodge City. Both projects were or will be funded primarily through financing with CoBank.

REGULATORY MATTERS

As of December 31, 2020, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

GOVERNANCE

Board of Directors

We are governed by 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 2020, 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 2020, 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;
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls or auditing matters; and
- oversight of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed 8 members of the Board of Directors. During 2020, 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 continued coronavirus pandemic, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitments

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

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

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

CUSTOMER PRIVACY

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

High Plains Farm Credit

2905 Vine Street
P.O. Box 836
Hays, KS 67601
785.625.2110
Toll Free: 1.800.369.9625
Fax: 785.625.4309

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 2020 annual report is consistent with that in the financial statements.

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

Craig Gebhard
Chairman of the Board

Kevin D. Swayne

Kevin D. Swayne
President and Chief Executive Officer

Melvin E. Kitts

Melvin E. Kitts
Chairman of the Audit Committee

John Booze

John T. Booze
Chief Financial Officer

March 9, 2021

High Plains Farm Credit

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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, 2020. 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, 2020, 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, 2020.

Kevin D. Swayne
President and Chief Executive Officer

John T. Booze
Chief Financial Officer

March 9, 2021

High Plains Farm Credit

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P.O. Box 836
Hays, KS 67601
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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 2020, 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 2020.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2020 were $66,000 for audit services, $9,400 for tax services, and $2,000 for non-audit services for new accounting pronouncement review.

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

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

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the Association's audited financial statements for the year ended December 31, 2020 (the "Financial Statements") with management. The Committee also reviews with PwC the matters required to be discussed by Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2020 and for filing with the Farm Credit Administration.

Melvin E. Kitts

Melvin E. Kitts, Chairman of the Audit Committee

<u>Audit Committee Members</u>
Jeannine Mondero
Keith Kennedy
Monte Thom
Daniel Cossman
Kenny Gasper
Craig Gebhard (ex officio)

March 9, 2021

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, 2020, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of High Plains Farm Credit, ACA and its subsidiaries as of December 31, 2020, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 9, 2021

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

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2020	2019	2018
ASSETS			
Loans	**$ 1,369,160**	$ 1,239,480	$ 1,157,565
Less allowance for loan losses	**3,205**	3,026	2,831
Net loans	**1,365,955**	1,236,454	1,154,734
Cash	**18,175**	24,708	15,341
Accrued interest receivable	**14,765**	20,127	18,788
Investment in CoBank, ACB	**46,893**	43,084	40,373
Premises and equipment, net	**5,188**	4,954	4,079
Prepaid benefit expense	**3,252**	2,695	1,899
Other assets	**8,379**	9,967	7,922
Total assets	**$ 1,462,607**	$ 1,341,989	$ 1,243,136
LIABILITIES			
Note payable to CoBank, ACB	**$ 1,151,724**	$ 1,046,968	$ 974,875
Advance conditional payments	**20,060**	23,149	13,406
Accrued interest payable	**1,202**	2,255	2,368
Patronage distributions payable	**12,900**	12,500	9,400
Accrued benefits liability	**83**	293	496
Deferred tax liability	**177**	118	-
Reserve for unfunded commitments	**702**	547	442
Other liabilities	**10,270**	3,587	4,235
Total liabilities	**$ 1,197,118**	$ 1,089,417	$ 1,005,222
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Preferred stock	**5,025**	5,672	5,050
Capital stock	**1,777**	1,744	1,794
Additional paid-in capital	**69,380**	69,380	69,380
Unallocated retained earnings	**189,307**	175,973	161,986
Accumulated other comprehensive income/(loss)	**-**	(197)	(296)
Total shareholders' equity	**265,489**	252,572	237,914
Total liabilities and shareholders' equity	**$ 1,462,607**	$ 1,341,989	$ 1,243,136

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2020	2019	2018
INTEREST INCOME			
Loans	**$ 51,494**	$ 59,575	$ 54,459
Investment in dealer notes	**-**	-	51
Total interest income	**51,494**	59,575	54,510
INTEREST EXPENSE			
Note payable to CoBank, ACB	**18,256**	27,129	23,874
Other	**109**	237	131
Total interest expense	**18,365**	27,366	24,005
Net interest income	**33,129**	32,209	30,505
Provision for credit losses	**338**	308	401
Net interest income after provision for credit losses	**32,791**	31,901	30,104
NONINTEREST INCOME			
Financially related services income	**388**	346	285
Loan fees	**504**	232	212
Patronage distribution from Farm Credit institutions	**7,109**	6,207	7,503
Farm Credit Insurance Fund distribution	**276**	284	755
Mineral income	**378**	563	517
Other noninterest income	**363**	332	266
Total noninterest income	**9,018**	7,964	9,538
NONINTEREST EXPENSE			
Salaries and employee benefits	**7,464**	6,518	6,310
Occupancy and equipment	**563**	515	488
Purchased services from AgVantis, Inc.	**2,183**	2,041	1,809
Farm Credit Insurance Fund premium	**954**	839	755
Supervisory and examination costs	**419**	410	414
Prepayment expense	**1,319**	-	43
Other noninterest expense	**2,532**	2,722	2,363
Total noninterest expense	**15,434**	13,045	12,182
Income before income taxes	**26,375**	26,820	27,460
Provision for/(Benefit from) income taxes	**53**	132	(133)
Net income	**26,322**	26,688	27,593
COMPREHENSIVE INCOME			
Amortization of retirement costs	**193**	93	112
Actuarial gain in retirement obligation	**4**	6	6
Total comprehensive income	**$ 26,519**	$ 26,787	$ 27,711

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Preferred Stock	Capital Stock	Additional Paid-In Capital	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
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 distributions: Cash				(12,500)		(12,500)
Balance at December 31, 2019	5,672	1,744	69,380	175,973	(197)	252,572
Comprehensive income				26,322	197	26,519
Stock issued	1,437	148				1,585
Stock retired	(2,084)	(115)				(2,199)
Preferred stock dividends declared	-			(88)		(88)
Patronage Distirbution: Cash				(12,900)		(12,900)
Balance at December 31, 2020	**$ 5,025**	**$ 1,777**	**$ 69,380**	**$ 189,307**	**$ -**	**$ 265,489**

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

Consolidated Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 26,322**	$ 26,688	$ 27,593
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**431**	414	375
Provision for credit losses	**338**	308	401
Patronage stock from CoBank, ACB	**(605)**	(504)	(575)
Gains on sales of premises and equipment	**-**	(108)	(62)
Net accretion of yield related to loans and notes payable acquired in merger	**(217)**	(352)	(230)
Change in assets and liabilities:			
Decrease/(Increase) in accrued interest receivable	**5,362**	(1,339)	(2,154)
Increase in prepaid benefit expense	**(557)**	(796)	(587)
Decrease/(Increase) in other assets	**2,193**	(1,541)	1,358
(Decrease)/Increase in accrued interest payable	**(1,053)**	(113)	723
Decrease in accrued benefits liability	**(13)**	(104)	(83)
Increase/(Decrease) in deferred tax liability	**59**	118	(202)
Increase/(Decrease) in other liabilities	**6,595**	(849)	(1,915)
Total adjustments	**12,533**	(4,866)	(2,951)
Net cash provided by operating activities	**38,855**	21,822	24,642
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in investment in dealer notes	**-**	-	1,109
Increase in loans, net	**(129,215)**	(81,908)	(100,390)
Increase in investment in CoBank, ACB	**(3,809)**	(2,711)	(1,896)
Expenditures for premises and equipment	**(665)**	(1,520)	(1,439)
Proceeds from sales of premises and equipment	**-**	339	73
Net cash used in investing activities	**(133,689)**	(85,800)	(102,543)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank, ACB	**104,504**	72,430	76,113
(Decrease)/Increase in advance conditional payments	**(3,089)**	9,743	6,790
Preferred stock retired	**(2,084)**	(1,985)	(1,995)
Preferred stock issued	**1,437**	2,607	3,592
Capital stock retired	**(115)**	(120)	(108)
Capital stock issued	**148**	70	84
Cash patronage distributions paid	**(12,500)**	(9,400)	(4,400)
Net cash provided by financing activities	**88,301**	73,345	80,076
Net (decrease)/increase in cash	**(6,533)**	9,367	2,175
Cash at beginning of year	**24,708**	15,341	13,166
Cash at end of year	**$ 18,175**	$ 24,708	$ 15,341
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	**$ 19,418**	$ 27,479	$ 23,282
Income taxes	**$ -**	$ -	$ (94)
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Patronage stock from CoBank, ACB	**$ 605**	$ 504	$ 575
Net charge-offs	**$ 4**	$ 8	$ 11
Patronage distributions payable	**$ 12,900**	$ 12,500	$ 9,400
Preferred stock dividends declared	**$ 88**	$ 201	$ 156
Change in accumulated other comprehensive income/(loss)	**$ 197**	$ 99	$ 118

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020, the System was comprised of three Farm Credit Banks and one Agricultural Credit Bank (System Banks), and 68 associations.

CoBank, ACB (funding bank or the “Bank”), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District Associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. As of December 31, 2020, the CoBank District consists of CoBank, 21 Agricultural Credit Associations (ACA), which each have two wholly owned subsidiaries, (a FLCA and a PCA) and AgVantis.

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

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

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

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

The Association also serves as an intermediary in offering credit life insurance, multi-peril crop and crop hail insurance, 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.

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. 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

Adopted Guidance

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

In March 2020, the FASB issued guidance entitled "Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contracts related to the replacement of the reference rate. The optional amendments are effective as of March 12, 2020, through December 31, 2022. The Association has adopted this guidance on a prospective basis for loan modifications related to reference rate reform during 2020. The adoption did not materially impact the Associations' financial condition or its results of operations.

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

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

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

In August 2018, the FASB issued guidance entitled "Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement." The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance became effective for interim and annual periods beginning after December 15, 2019. The adoption of this guidance did not impact the Association's financial condition or its results of operations, but did impact the fair value measurements disclosures.

Guidance Pending Adoption

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

Summary of the Association's Significant Accounting Policies

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

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

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

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

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

The Association purchases loan participations from other System 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. Long-lived assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of an asset group may not be recoverable.

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

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

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

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

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

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

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

H. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned and are included in Other Assets on the Consolidated Statement of Condition.

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

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

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

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

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

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

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

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

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

The fair value disclosures are presented in Note 14.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Real estate mortgage	**$ 806,613**	$ 741,527	$ 734,857
Production and intermediate-term	**402,374**	389,760	335,246
Agribusiness	**133,890**	101,566	83,712
Rural infrastructure	**26,018**	6,302	3,246
Rural residential real estate	**265**	325	504
Total loans	**$1,369,160**	$1,239,480	$1,157,565

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2020.

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
(dollars in thousands)	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 73,078	$ 78,739	$ 1,121	$ –	$ 74,199	$ 78,739
Production and intermediate-term	89,572	198,148	1,281	–	90,853	198,148
Agribusiness	105,180	26,247	–	1,378	105,180	27,625
Rural infrastructure	26,018	–	–	–	26,018	–
Total	$ 293,848	$ 303,134	$ 2,402	$ 1,378	$ 296,250	$ 304,512

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 $24.0 million, $19.3 million and $18.7 million at December 31, 2020, 2019 and 2018, 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 $77 thousand in 2020, $72 thousand in 2019 and $74 thousand in 2018 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of $8.4 million at year-end 2020, $8.6 million at year-end 2019 and $8.7 million at year-end 2018 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. During 2020, the Association's credit enhancements with federal government agencies also included loans guaranteed at 100% by the Small Business Administration (SBA).

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

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

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

	2020	2019	2018
Real estate mortgage			
Acceptable	**91.80%**	89.20%	90.71%
OAEM	**4.26%**	6.69%	5.73%
Substandard	**3.94%**	4.11%	3.56%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**92.51%**	88.44%	87.20%
OAEM	**2.87%**	6.87%	9.36%
Substandard	**4.62%**	4.69%	3.44%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**88.31%**	100.00%	96.83%
OAEM	**11.69%**	–	3.17%
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	**85.81%**	87.92%	90.47%
Substandard	**14.19%**	12.08%	9.53%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**91.82%**	89.89%	90.15%
OAEM	**4.49%**	6.17%	6.58%
Substandard	**3.69%**	3.94%	3.27%
Total	**100.00%**	100.00%	100.00%

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

	December 31		
(dollars in thousands)	**2020**	2019	2018
Nonaccrual loans:			
Current as to principal and interest	**$ 1,388**	$ 2,147	$ 2,124
Past due	**436**	2,792	46
Total nonaccrual loans	**1,824**	4,939	2,170
Restructured accrual loans	**509**	–	–
Total impaired loans	**$ 2,333**	$ 4,939	$ 2,170

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

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

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

	December 31		
(dollars in thousands)	**2020**	2019	2018
Nonaccrual loans			
Real estate mortgage	**$ 1,594**	$ 4,697	$ 1,896
Production and intermediate-term	**192**	242	274
Rural residential real estate	**38**	–	–
Total nonaccrual loans	**1,824**	4,939	2,170
Accruing restructured loans			
Real estate mortgage	**$ 509**	$ –	$ –
Total accruing restructured loans	**509**	–	–
Total impaired loans	**$ 2,333**	$ 4,939	$ 2,170

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

Additional impaired loan information is as follows:

(dollars in thousands)	Recorded Investment at 12/31/20	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ 231	$ –
Total	$ –	$ –	$ –	$ 231	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,104	$ 2,454		$ 2,917	$ 325
Production and intermediate-term	192	235		207	–
Agribusiness	–	107		–	–
Rural residential real estate	37	39		27	–
Total	$ 2,333	$ 2,835		$ 3,151	$ 325
Total impaired loans:					
Real estate mortgage	$ 2,104	$ 2,454	$ –	$ 3,148	$ 325
Production and intermediate-term	192	235	–	207	–
Agribusiness	–	107	–	–	–
Rural residential real estate	37	39	–	27	–
Total	$ 2,333	$ 2,835	$ –	$ 3,382	$ 325

(dollars in thousands)	Recorded Investment at 12/31/19	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
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

(dollars in thousands)	Recorded Investment at 12/31/18	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
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

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

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

	Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Interest income recognized on:			
Nonaccrual loans	**$ 296**	$ 14	$ 47
Restructured accrual loans	**14**	–	–
Accrual loans 90 days or more past due	**15**	1	7
Interest income recognized on impaired loans	**$ 325**	$ 15	$ 54

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

	Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Interest income which would have been recognized under the original loan terms	**$ 204**	$ 335	$ 162
Less: interest income recognized	**310**	14	47
Interest income (recognized)/not recognized	**$ (106)**	$ 321	$ 115

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

	December 31, 2020					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 457	$ 407	$ 864	$ 816,072	$ 816,936	$ –
Production and intermediate-term	231	–	231	406,293	406,524	–
Agribusiness	–	–	–	134,160	134,160	–
Rural infrastructure	–	–	–	26,039	26,039	–
Rural residential real estate	–	–	–	266	266	–
Total	$ 688	$ 407	$ 1,095	$1,382,830	$1,383,925	$ –

	December 31, 2019					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 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					
(dollars in thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 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	$ –

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

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

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

	Year Ended December 31					
	2020		2019		2018	
	Outstanding Recorded Investment					
(dollars in thousands)	**Pre-modification**	**Post-modification**	Pre-modification	Post-modification	Pre-modification	Post-modification
Troubled debt restructurings:						
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*		
(dollars in thousands)	**2020**	2019	2018	**2020**	2019	2018
Real estate mortgage	**$ 562**	$ 536	$ 607	**$ 53**	$ 536	$ 607
Total	**$ 562**	$ 536	$ 607	**$ 53**	$ 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:

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	(Loan Loss Reversals)/ Provision for Loan Losses	Balance at December 31, 2020
Real estate mortgage	$ 799	$ –	$ –	$ (90)	$ 709
Production and intermediate-term	2,096	(4)	–	91	2,183
Agribusiness	122	–	–	152	274
Rural infrastructure	9	–	–	30	39
Total	$ 3,026	$ (4)	$ –	$ 183	$ 3,205

(dollars in thousands)	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

(dollars in thousands)	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

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		
(dollars in thousands)	**2020**	2019	2018
Balance at beginning of period	**$ 547**	$ 442	$ 434
Provision for reserve for unfunded commitments	**155**	105	8
Total	**$ 702**	$ 547	$ 442

Additional information on the allowance for loan losses follows:

	Allowance for Loan Losses Ending Balance at December 31, 2020		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2020	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 709	$ 2,104	$ 814,832
Production and intermediate-term	–	2,183	192	406,332
Agribusiness	–	274	–	134,160
Rural infrastructure	–	39	–	26,039
Rural residential real estate	–	–	37	229
Total	$ –	$ 3,205	$ 2,333	$ 1,381,592

	Allowance for Loan Losses Ending Balance at December 31, 2019		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2019	
(dollars in thousands)	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ 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	
(dollars in thousands)	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

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2020, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The current requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan, patronage from CoBank related to these participations sold is paid 75 percent cash and 25 percent Class A stock on participations for agricultural cooperatives and communications customers and 80 percent cash and 20 percent Class A stock on participations for electric distribution and generation cooperatives and rural water customers. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

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

The Association owned approximately 1.21 percent of the outstanding common stock of CoBank at December 31, 2020, compared with 1.20 percent at December 31, 2019 and 1.20 percent at December 31, 2018.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Land	**$ 567**	$ 160	$ 160
Buildings and leasehold improvements	**5,594**	5,125	3,586
Furniture, equipment and automobiles	**2,134**	1,957	1,805
Construction in progress	**–**	466	1,139
	8,295	7,708	6,690
Less: accumulated depreciation	**3,107**	2,754	2,611
Total	**$ 5,188**	$ 4,954	$ 4,079

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA). According to the agreement, the aggregate outstanding amount of principal and accrued interest shall not at any time exceed the line of credit. The GFA is subject to periodic renewals in the normal course of business. The GFA will mature on December 31, 2022. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2020. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Line of credit	**$ 1,200,000**	$ 1,110,000	$ 1,070,000
Outstanding principal and accrued interest balance	**$ 1,152,912**	$ 1,049,172	$ 977,192
Average outstanding principal balance under the line of credit	**$ 1,062,476**	$ 979,510	$ 926,674
Weighted average interest rate	**1.72%**	2.77%	2.58%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. Other than the funding relationship with the Bank, and our advanced conditional payments, the Association has no other uninsured or insured debt. See Note 2 for additional information. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2020, the Association's notes payable was within the specified limitations.

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

(dollars in thousands)	**2020**	2019	2018
Average committed funds	**$ 221,169**	$ 203,453	$ 186,756
Average rates	**1.27%**	2.48%	2.38%

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, 2020, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

C. Regulatory Capitalization Requirements and Restrictions

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

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

Ratio	Primary Components of Numerator	Denominator	2020	2019	2018	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	15.56%	16.02%	16.05%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, noncumulative perpetual preferred stock	Risk-adjusted assets	15.56%	16.02%	16.05%	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	15.83%	16.28%	16.31%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	16.40%	16.72%	16.65%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	18.59%	18.85%	18.79%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	15.95%	16.49%	16.54%	–	7.0%

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

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

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2020. Unless otherwise indicated, all classes of stock have a par value of $5.00. All classes of stock are transferable to 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, 352,926 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, 2,468 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, 5,025,000 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, 2020, the Dividend Rate was 1%.

The changes in the number of shares of protected and capital stock outstanding during 2020 are summarized in the following table.

Shares in whole numbers	Preferred	Capital
Shares outstanding at December 31, 2019	5,672,000	348,690
Issuances	1,437,000	29,698
Retirements	(2,084,000)	(22,994)
Shares outstanding at December 31, 2020	5,025,000	355,394

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 $12.5 million in 2020, $9.4 million in 2019 and $4.4 million in 2018. The Association declared a $12.9 million cash patronage distribution in 2020 to be paid in 2021.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: First, pro rata to 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 2020, the Association allocated 48.92 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 no accumulated other comprehensive loss in 2020, compared with $197 thousand in 2019 and $296 thousand in 2018. There were no other items affecting comprehensive income or loss.

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

(dollars in thousands)	**2020**	2019	2018
Pension benefit plan:			
Beginning balance	**$ (197)**	$ (296)	$ (414)
Other comprehensive income before reclassifications	**4**	6	6
Amounts reclassified from accumulated other comprehensive loss comprehensive loss	**193**	93	112
Net current period other comprehensive income	**197**	99	118
Year-end balance	**$ –**	$ (197)	$ (296)

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

	Amount Reclassified from Accumulated Other Comprehensive Loss			
	December 31			
(dollars in thousands)	**2020**	2019	2018	Location of Gain/Loss Recognized in Statement of Income
Pension and other benefit plans:				
Net actuarial loss	**$ 193**	$ 93	$ 112	Salaries and employee benefits
Total reclassifications	**$ 193**	$ 93	$ 112	

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

(dollars in thousands)	**2020**	2019	2018
CoBank	**$ 7,045**	$ 6,163	$ 7,496
Farm Credit Foundations	**9**	9	7
Other	**55**	35	–
Total	**$ 7,109**	$ 6,207	$ 7,503

Patronage distributed from CoBank was in cash and stock. The amount earned in 2020 was accrued and will be paid by CoBank in March 2021. During 2020, the Association received additional patronage distribution from CoBank of $1.2 million due to CoBank's strong capital levels and financial results. The amount earned and accrued in 2019 and 2018 was paid by CoBank in March of the following year. In 2018, the Association received a special cash patronage distribution from CoBank of $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 2021. 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		
(dollars in thousands)	**2020**	2019	2018
Current:			
Federal	**$ (5)**	$ 12	$ 52
State	**(1)**	2	17
Deferred:			
Federal	**47**	93	(149)
State	**12**	25	(53)
Provision for/(Benefit from) income taxes	**$ 53**	$ 132	$ (133)

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

	Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Federal tax at statutory rate	**$ 5,539**	$ 5,632	$ 5,766
State tax, net	**9**	21	(28)
Effect of non-taxable FLCA subsidiary	**(4,468)**	(4,685)	(4,489)
Change in valuation allowance	**–**	(505)	505
Prior year federal tax adjustments	**(6)**	–	(2)
Patronage distributions	**(1,021)**	(965)	(1,885)
Provision to return difference	**(2)**	628	–
Other	**2**	6	–
Provision for/(Benefit from) income taxes	**$ 53**	$ 132	$ (133)

Deferred tax assets and liabilities are comprised of the following.

	December 31		
(dollars in thousands)	**2020**	2019	2018
Deferred income tax assets:			
Allowance for loan losses	**$ 694**	$ 642	$ 605
Interest on nonaccrual loans	**10**	6	2
Excess book depreciation > Tax depreciation	**34**	34	31
Gross deferred tax assets	**738**	682	638
Deferred tax asset valuation allowance	–	–	(638)
Deferred income tax liabilities:			
Bank patronage allocation	**(915)**	(800)	–
Net deferred tax liability	**$ (177)**	$ (118)	$ –

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 2020 and 2019, compared with $638 thousand in 2018. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions as of December 31, 2020, 2019 or 2018. The Association recognizes interest and penalties related to unrecognized tax positions as an adjustment to income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2017 and forward.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth 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 $57.4 million at December 31, 2020. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $359.9 million at December 31, 2020, $333.7 million at December 31, 2019 and $274.4 million at December 31, 2018. The fair value of the plan assets was $302.5 million at December 31, 2020, $252.5 million at December 31, 2019 and $204.9 million at December 31, 2018. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated ownership percentage under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $19.5 million in 2020, $6.8 million in 2019 and $10.8 million in 2018. The Association's allocated share of plan expenses included in salaries and employee benefits was $1.2 million in 2020, $410 thousand in 2019, and $686 thousand in 2018. Participating employers contributed $30.0 million in 2020, $20.0 million in 2019 and $20.0 million in 2018 to the plan. The Association's allocated share of these pension contributions was $1.7 million in 2020, $1.2 million in 2019, and $1.3 million in 2018. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2021 is $30.0 million. The Association's allocated share of these pension contributions is expected to be $1.7 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were income of $3 thousand in 2020, $3 thousand in 2019 and $2 thousand in 2018. The Association made cash contributions of $11 thousand in 2020, $11 thousand in 2019 and $13 thousand in 2018.

The Association participates in a non-qualified defined benefit Pension Restoration Plan that is unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plan are offset by the benefits payable from the Pension Plan. Pension Restoration Plan expenses included in salaries and employee benefits were $197 thousand in 2020, $107 thousand in 2019, and $130 thousand in 2018.

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

(dollars in thousands)	**2020**	2019	2018
Change in benefit obligation:			
Benefit obligation at the beginning of the period	**$ 197**	$ 386	$ 572
Interest cost	**4**	14	18
Actuarial (gain)/loss	**(4)**	(6)	(6)
Benefits paid	**(197)**	(197)	(198)
Benefit obligation at the end of the period	**$ –**	$ 197	$ 386
Change in plan assets:			
Company contributions	**197**	197	198
Benefits paid	**(197)**	(197)	(198)
Fair value of plan assets at the end of the period	**$ –**	$ –	$ –
Funded status of the plan	**$ –**	$ (197)	$ (386)
Amounts recognized in the Consolidated Statement of Condition consist of:			
Liabilities	**$ –**	$ 197	$ 386
Net amount recognized	**$ –**	$ 197	$ 386

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

(dollars in thousands)	**2020**	2019	2018
Net actuarial loss	**$ –**	$ (197)	$ (296)
Total amount recognized in AOCI/(Loss)	**$ –**	$ (197)	$ (296)

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

(dollars in thousands)	**2020**	2019	2018
Accumulated benefit obligation	**$ –**	$ 197	$ 386
Fair value of plan assets	**$ –**	$ –	$ –

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

(dollars in thousands)	**2020**	2019	2018
Projected benefit obligation	**$ –**	$ 197	$ 386
Fair value of plan assets	**$ –**	$ –	$ –

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

	Nonqualified Pension Restoration Benefits		
(dollars in thousands)	**2020**	2019	2018
Components of net periodic benefit cost			
Interest cost	**$ 4**	$ 14	$ 18
Net amortization and deferral	**193**	93	112
Net periodic benefit cost	**$ 197**	$ 107	$ 130

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

(dollars in thousands)	**2020**	2019	2018
Current year net actuarial gain	**$ 4**	$ 6	$ 6
Amortization of net actuarial loss	**193**	93	112
Total recognized in other comprehensive income	**$ 197**	$ 99	$ 118

Actuarial gains in the three years presented were primarily due to changes in plan experience, discount rate and the plan demographics.

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

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

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

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

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

At December 31, 2020, the Association had no future benefit payments for the pension restoration plan.

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 $428 thousand in 2020, $395 thousand in 2019, and $384 thousand in 2018.

NOTE 11 – RELATED PARTY TRANSACTIONS

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

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

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

(dollars in thousands)	**2020**	2019	2018
Beginning balance	**$ 24,190**	$ 26,670	$ 28,991
New loans	**14,200**	12,360	17,073
Repayments	**(12,652)**	(14,038)	(16,788)
Reclassifications*	**–**	(802)	(2,606)
Ending balance	**$ 25,738**	$ 24,190	$ 26,670

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

In the opinion of management, none of the loans outstanding to officers and directors at December 31, 2020 involved more than a normal risk of collectability.

The Association also has business relationships with certain other System entities. The Association paid $2.2 million in 2020, $2.0 million in 2019, and $1.8 million in 2018 to AgVantis for technology services. One Association officer serves as an AgVantis director. The Association paid $128 thousand in 2020, $125 thousand in 2019, and $113 thousand in 2018 to Foundations for human resource services and $28 thousand in 2020, $4 thousand in 2019, and $3 thousand in 2018 to CoBank for operational services. One Association officer, elected by Foundations' owners, serves on the Foundations' Trust Committee.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit 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, 2020, $335.0 million of commitments to extend credit and $195 thousand 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 these commitments, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association also participates in standby letters of credits to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2020, $631 thousand of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2021 to 2024. The maximum potential amount of future payments the Association is required to make under the guarantees is $631 thousand.

NOTE 14 – FAIR VALUE MEASUREMENTS

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

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

	Fair Value Measurement Using			**Total Fair**
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets held in nonqualified benefits trusts				
2020	**$ 76**	**$ –**	**$ –**	**$ 76**
2019	$ 141	$ –	$ –	$ 141
2018	$ 267	$ –	$ –	$ 267

The Association did not have any loans measured at fair value using Level 3 inputs on a non-recurring basis at December 31, 2020, compared with $816 thousand at December 31, 2019, and $239 thousand at December 31, 2018.

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

Valuation Techniques

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

Assets Held in Non-Qualified Benefits Trusts

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

Loans

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

NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	2020				
(dollars in thousands)	**First**	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 8,065**	**$ 8,437**	**$ 8,250**	**$ 8,377**	**$33,129**
(Credit loss reversal)/Provision for credit losses	**(8)**	**294**	**(91)**	**143**	**338**
Noninterest expense, net	**1,266**	**1,246**	**2,494**	**1,463**	**6,469**
Net income	**$ 6,807**	**$ 6,897**	**$ 5,847**	**$ 6,771**	**$26,322**

	2019				
(dollars in thousands)	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				
(dollars in thousands)	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

NOTE 16 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 9, 2021 which is the date the financial statements were issued, and no material subsequent events were identified.

Disclosure Information Required By Farm Credit Administration Regulations

(Amounts in Whole Dollars)

Description of Business

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

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

Description of Property

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

Location	Description	Form of Ownership
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
408 Frontview Road Dodge City, KS 67801	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, 2020, required to be disclosed in this section is incorporated herein by reference from the “Five-Year Summary of Selected Consolidated Financial Data,” included in this annual report to shareholders.

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 2023. Mr. Kennedy serves as a member of the Audit Committee and 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 2023. Mr. Benoit is a member of the Governance and Compensation Committees. He also serves as an alternate on the Audit and Executive Committees. 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 2023. 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 Audit and Executive Committees. 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 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 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 a 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 2023. 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 a 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.

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 25 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 36 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.
John Booze	Chief Financial Officer (CFO) – Mr. Booze serves as CFO and has been in this capacity since February 2021. Mr. Booze has been with the Association since December 2017 serving as Controller through January 2021. He is a Certified Public Accountant and has 3 years public accounting experience prior to joining High Plains.
Travis Holdeman	Chief Risk Officer (CRO) – Mr. Holdeman serves as CRO. He has been with the Farm Credit System for the past 12 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 27 years. Mr. DeWeese has served as Vice President since August 2000 and is involved in a farming and ranching operation in South Central Kansas.
Kelly M. Forell	Chief Financial Officer (CFO) – Mrs. Forell served as CFO and had been with the Association since December 2018. She is a Certified Public Accountant and joined High Plains after providing 17 years of public accounting services to Northwest Oklahoma. Mrs. Forell served as the CFO from December 2018 until January 2021.

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 per meeting, 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 $0.575 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 audit 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	Other Committees (Compensation, Governance, & Scholarship	Total Compen-sation Paid During 2020
Craig Gebhard	11	5	$ 10,500	$ 1,922	$ 50	$ –	$ 12,472
Keith Kennedy	11	18	11,800	1,811	950	–	14,561
Tim Benoit	10	12	9,750	1,368	700	–	11,818
Howard Boese	10	3	8,450	1,296	–	–	9,746
Daniel Cossman	10	11	7,150	1,537	950	–	9,637
Richard Deines	10	3	8,450	1,389	–	–	9,839
Ken Gasper	11	5	7,800	1,778	350	–	9,928
Jon Herrmann	10	7	9,750	1,418	100	100	11,368
Melvin Kitts	11	18	9,400	2,069	2,050	–	13,519
Danny Koehn	10	6	9,200	1,559	100	–	10,859
Jeannine Mondero	10	16	11,050	1,776	950	–	13,776
E. Vance Shay	11	6	7,350	1,599	–	400	9,349
Matt Thielen	10	6	7,150	1,256	–	500	8,906
Monte Thom	10	14	9,750	1,685	850	–	12,285
Total Compensation			$ 127,550	$ 22,463	$ 7,050	$ 1,000	$158,063

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 $54,971 in 2020, $187,171 in 2019 and $112,949 in 2018. There was no non-cash compensation paid to directors as a group during 2020.

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, 2020 Balance	Purchases during 2020	Retirements during 2020
Howard Boese Revocable Trust	Director	Director	$ -	$ 200	$ (300)
Spring Hills Ranch, LLC (Monte Thom)	Director	Director	$ 450	$ -	$ -
Danny Koehn	Director	Director	$ 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 2020 was 1.46% 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.

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

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

Relationship with Independent Auditors

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

Financial Statements

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 9, 2021, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

CoBank Annual and Quarterly Reports to Shareholders

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2020 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 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

Supporting Our Communities

Jake Worcester, Kansas 4-H Foundation President/CEO receiving a $10,000 check from Kevin Swayne and Rob DeWeese with High Plains Farm Credit.