AgPreference

agpreference, aca/part of the farm credit system

Knowledge • Courage • Committment • Dedication • Leadership • Relationships

2020 ANNUAL REPORT

PROVIDING FINANCING TO FARMERS AND RANCHERS IN SOUTHWEST OKLAHOMA SINCE 1917

Five-Year Summary of Selected Consolidated Financial Data

(Dollars in Thousands)

	December 31				
	2020	2019	2018	2017	2016
Statement of Condition Data					
Loans	**$ 246,918**	$ 238,954	$ 259,620	$ 239,185	$ 230,050
Less allowance for loan losses	**420**	498	702	723	675
Net loans	**246,498**	238,456	258,918	238,462	229,375
Investment in CoBank, ACB	**8,311**	8,310	8,307	7,968	7,527
Other property owned	**-**	-	-	4	-
Other assets	**8,272**	9,080	10,064	8,501	8,233
Total assets	**$ 263,081**	$ 255,846	$ 277,289	$ 254,935	$ 245,135
Obligations with maturities of one year or less	**$ 2,441**	$ 3,707	$ 3,267	$ 1,720	$ 1,803
Obligations with maturities longer than one year	**206,982**	199,080	222,857	204,673	196,855
Reserve for unfunded commitments	**112**	89	94	94	57
Total liabilities	**209,535**	202,876	226,218	206,487	198,715
Protected borrower stock	**10**	10	10	10	10
Capital stock	**344**	355	364	372	376
Unallocated retained earnings	**53,192**	52,605	50,697	48,066	46,034
Total shareholders' equity	**53,546**	52,970	51,071	48,448	46,420
Total liabilities and shareholders' equity	**$ 263,081**	$ 255,846	$ 277,289	$ 254,935	$ 245,135

	For the Year Ended December 31				
	2020	2019	2018	2017	2016
Statement of Income/(Expense) Data					
Net interest income	**$ 6,043**	$ 6,524	$ 6,418	$ 6,221	$ 5,850
Patronage distribution from Farm Credit institutions	**878**	842	1,068	906	968
Credit loss reversal/(Provision for credit losses)	**73**	210	21	(98)	(303)
Noninterest expense, net	**(5,797)**	(4,941)	(4,238)	(4,331)	(4,021)
(Provision for)/Benefit from income taxes	**-**	(133)	32	(63)	(33)
Net income/Comprehensive income	**$ 1,197**	$ 2,502	$ 3,301	$ 2,635	$ 2,461

Key Financial Ratios					
For the Year					
Return on average assets	**0.47%**	0.95%	1.27%	1.06%	1.05%
Return on average shareholders' equity	**2.23%**	4.77%	6.60%	5.54%	5.38%
Net interest income as a percentage of average earning assets	**2.51%**	2.66%	2.63%	2.65%	2.64%
Net (recoveries)/charge-offs as a percentage of average net loans	**<(0.01%)**	<(0.01%)	-	0.01%	0.02%
At Year End					
Shareholders' equity as a percentage of total assets	**20.35%**	20.70%	18.42%	19.00%	18.94%
Debt as a ratio to shareholders' equity	**3.91:1**	3.83:1	4.43:1	4.26:1	4.28:1
Allowance for loan losses as a percentage of loans	**0.17%**	0.21%	0.27%	0.30%	0.29%
Common equity tier 1 (CET1) capital ratio	**21.35%**	21.65%	20.19%	19.73%	N/A
Tier 1 capital ratio	**21.35%**	21.65%	20.19%	19.73%	N/A
Total regulatory capital ratio	**21.64%**	22.00%	20.55%	20.21%	N/A
Tier 1 leverage ratio	**17.76%**	17.90%	16.18%	16.18%	N/A
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**18.70%**	18.86%	16.97%	16.82%	N/A
Permanent capital ratio	**21.41%**	21.71%	20.25%	19.82%	21.14%
Total surplus ratio	**N/A**	N/A	N/A	N/A	20.94%
Core surplus ratio	**N/A**	N/A	N/A	N/A	20.94%
Net Income Distribution					
Cash patronage distributions paid	**$ 594**	$ 670	$ 604	$ 592	$ 575
Cash patronage declared	**$ 610**	$ 594	$ 670	$ 604	$ 593

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of AgPreference, 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:

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

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.farmcreditloans.com, or upon request. We are located at 3120 N. Main Street, Altus, Oklahoma 73521-1305 or may be contacted by calling (580) 482-3030 or (800) 727-3276.

MERGER WITH FARM CREDIT OF WESTERN OKLAHOMA, ACA

In March 2020, the boards of directors of Farm Credit of Western Oklahoma, ACA (Western Oklahoma) and AgPreference ACA (AgPreference) approved a letter of intent to pursue a merger. In August 2020, a merger application was submitted to Farm Credit Administration (FCA), the Farm Credit System regulator. On October 16, 2020, the FCA granted preliminary approval of the merger subject to certain conditions. On November 20, 2020, AgPreference and Western Oklahoma announced that their voting stockholders overwhelmingly approved the proposed plan of merger between the two associations. Final approval from FCA was received on December 28, 2020. The merger was effective on January 1, 2021. The merger successfully united two outstanding organizations that created a financial institution of greater capital, capacity, and human resources to serve agriculture and rural Oklahoma. The merged association will conduct business as Farm Credit of Western Oklahoma, ACA with headquarters located in Woodward, Oklahoma. John Grunewald will be the President and Chief Executive Officer of the newly formed association. For purposes of this discussion, references to "the Association" will be used for AgPreference from a historical perspective or Western Oklahoma from a current or future perspective.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2020, we are one of 68 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of Kiowa County south to the Red River (Oklahoma-Texas State Line), and from Cotton County west to the Oklahoma-Texas State Line. 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 and term life insurance, advance conditional payment accounts, leasing, and fee appraisal services. 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 3120 N. Main Street, Altus, Oklahoma 73521-1305 or by calling (580) 482-3030 or (800) 727-3276. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

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

ECONOMIC OVERVIEW

Lending Service Area

Weather conditions during 2020 saw generally dry conditions for a good part of the year as drought conditions were present during the last half of the year. Total rainfall for the year was near average although the variability did affect the summer crops. The January 19, 2021 U.S. Drought Monitor indicated four of six counties in Southwest Oklahoma in the moderate drought (D1) to severe drought (D2) category. Conditions improved due to rainfall in January 2021.

Irrigated and dryland cotton produced near average yields for most areas of our territory. Some acres of dry land cotton were abandoned due to drought in 2020. Overall, cotton acres decreased slightly from previous years. Planted wheat acres were near average. Winter wheat pasture available for grazing was limited as the crop was generally planted later than normal due to lack of rainfall. Generally, forage and pasture conditions were below normal but remained in near average condition due to the sporadic rains in 2020. Hay production was below normal for the year with some producers having to purchase hay.

Cash wheat prices for most of 2020 ranged around the $4.00 to $4.50 per bushel range. However, grain prices have trended upward near the end of 2020 with the current wheat price above $6.00 per bushel. Many producers are contracting the 2021 crop at these levels. Cotton prices have rebounded from lows in the $0.60/lb range and are now in the upper $0.70/lb range. Livestock prices remain depressed as exports have been reduced over the last 12 months due to the COVID-19 pandemic. Supplies are starting to decrease and stronger prices are projected in 2021 as demand for both exports and domestic use is expected to increase in 2021.

Farmland values remain relatively stable with changes +/- 3.00% indicated. Low interest rates in 2020 continued to provide stability in the land market. Demand for farm land remains strong. Overall, crop insurance, low interest rates, and demand have provided a support level for the land market.

The Federal Open Market Committee (Committee) continued its aggressive stance to keep interest rates at very low levels and has taken unprecedented actions with monetary policy in an effort to minimize the economic effects of the ongoing pandemic. The Committee maintained the target funds range of 0% to 0.25%.

Participation Loan Service Area

2020 began with significant worldwide inventory stock levels of corn, soybeans and wheat and a continuation of depressed prices. Those issues, coupled with COVID-19 concerns, provided little cause for future optimism. However, weather related issues in the USA and South America, high demand from China, and trade related issues in China, Russia and Ukraine resulted in significant price increases during the second half of 2020. At the end of

2020, cash grain prices for corn, soybeans, and wheat were at a 7-year high. Outlook for significant net income in 2021 and beyond for cash grain farms, especially soybean farms, is optimistic.

2020 saw the smallest USA cotton crop in 5 years as a result of decreased acreage and weather related issues in key growing areas. Cotton prices rose significantly during the last quarter of 2020 as a result of decreased supply and the Trump Administration's ban on Chinese imports, resulting in cash price increases in excess of 10% for the year. It is anticipated that the nation's cotton acreage will continue to increase as many farmers have found cotton to be an attractive alternative crop in many nontraditional cotton growing areas.

For the past few years, the renewable fuel standard has created a significant demand for corn and ethanol production. Over the past few years, the renewable fuel standard has been the source of much political dialogue, both pro and con, and with the changing administration, it is anticipated that political support will want to increase this type of fuel. However, with the recent price increase for corn, the financial operations for ethanol producers will be negatively impacted. Livestock and dairy operations have greatly benefitted from ethanol production as a result of the distillers grains by-products being a readily available feed supply. At present, it appears as though the renewable fuel standard is here to stay for the foreseeable future.

Fluid milk prices for 2020 continued to provide marginal price increases and allowed the nations dairy farms to return to breakeven levels and in some cases, marginally profitable. Significant losses over the preceding years severely eroded the financial condition of the nation's dairy farmers. It is critical that this segment of the agricultural economy return to a profitable level in order to insure that we have a dependable and stable supply of dairy products. International trade policy and its effect on U.S. imports and exports of dairy products is a critical component of price fluctuation, especially as it relates to powdered milk and cheese. It is anticipated that the passage of the USMCA trade agreement will open up the Canadian markets to U.S producers. Most of the dairy operations financed by our Association have a significant land base, which allows them to produce most of their feed supply. As a result, these operations remain on solid financial footing. These operations are primarily located in Wisconsin, Michigan, New York and California. Recent price increases for corn and soybean prices could have a negative impact on the dairy industry as a whole, as they are a primary component of feed expense. It is anticipated that the nation's dairy industry will continue to see additional consolidation in order to operate at profitable levels.

For the nation's cattle industry, 2020 was a challenging year, as COVID-19 issues presented major challenges to the U.S. meat packing industry for all protein segments, i.e. beef, pork, poultry. Even though the packing industry is considered an essential business, major shutdowns of processing plants all across the USA caused significant disruptions in the nation's meat supply and created major backlogs and a buildup of inventories. All segments of the cattle industry were affected by the subsequent downturn in the cattle market. However, increased domestic and export demand for USA beef products remained high and provides a much more optimistic outlook for 2021 beef producers.

The nation's cow herd numbers started to decline in 2020 and is expected to help bring about price increases for stocker and feeder cattle in 2021. Drought conditions in Montana and the Dakotas remain a concern, as this is an area where we have a large portion of our loan portfolio related to cattle.

National and worldwide politics continued to play a major role in trade policy and commodity prices during 2020 as a result of the U.S. withdrawing from the North American Free Trade Agreement (NAFTA) and replacing it with the implementation of the United States-Mexico-Canada Agreement (USMCA). Passage of this agreement did provide some immediate relief to America's dairy industry as well as increased marketing abilities for other agricultural commodities.

Association Operations

The effects of the COVID-19 pandemic could have a material adverse effect on the 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 but did not process any PPP loans for customers in the initial round of funding for the program. Congress also provided additional funding for small business disaster loans and direct payments to farmers and ranchers as a result of the COVID-19 pandemic as well as making purchases of agriculture products. The impact of these and other U.S. government support programs and stimulus on the broader agricultural economy and our customers in particular is uncertain at this time. Our Association worked with borrowers impacted by COVID-19 by offering loan modifications like deferments, conversions, and re-amortizations.

Agricultural Improvement Act of 2018

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

LOAN PORTFOLIO

Total loans outstanding were $246.9 million at December 31, 2020, an increase of $8.0 million, or 3.3%, from loans at December 31, 2019 of $239.0 million, and a decrease of $12.7 million, or 4.9%, from loans at December 31, 2018 of $259.6 million. The increase in loans was due to new loans and participation purchased loans. The types of loans outstanding at December 31 are reflected in the following table.

	2020		2019		2018	
(dollars in thousands)	**Volume**	**Percent**	Volume	Percent	Volume	Percent
Real estate mortgage loans	**$ 191,182**	**77.4%**	$ 183,033	76.6%	$ 196,400	75.6%
Production and intermediate-term loans	**28,583**	**11.6%**	34,396	14.4%	41,727	16.1%
Agribusiness loans	**23,429**	**9.5%**	19,976	8.3%	18,468	7.1%
Rural infrastructure loans	**3,610**	**1.5%**	1,416	0.6%	2,803	1.1%
Rural residential real estate loans	**114**	**–**	133	0.1%	222	0.1%
Total	**$ 246,918**	**100.0%**	$ 238,954	100.0%	$ 259,620	100.0%

Real estate mortgage loans outstanding increased 4.5% to $191.2 million, compared with $183.0 million at year-end 2019, primarily due to new loans. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans decreased 16.9% to $28.6 million, compared with 2019 loans of $34.4 million, primarily due to loan pay downs and loan pay offs. 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.

Increases were also noted in agribusiness and rural infrastructure loan volume, where approximately 47% of agribusiness and 100% of rural infrastructure volume were a result of loan participations purchased.

Portfolio Diversification

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

We purchase loan participations from other System 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 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			
System entities	**$ 18,018**	$ 15,659	$ 16,745
Non-System entities	**100,554**	97,721	105,570
Total participations purchased	**$ 118,572**	$ 113,380	$ 122,315
Participations sold			
System entities	**$ 5,860**	$ 6,505	$ 7,480
Total participations sold	**$ 5,860**	$ 6,505	$ 7,480

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. In the following table, the states listed each year comprise the largest volume outside our territory. The other categories comprise the remaining volume outside our territory.

	County/State	**2020**	2019	2018
Oklahoma Counties	Cotton	**4.71%**	4.88%	4.63%
	Greer	**3.13%**	2.94%	2.84%
	Harmon	**5.83%**	5.90%	5.91%
	Jackson	**8.18%**	9.47%	10.59%
	Kiowa	**11.20%**	11.39%	10.29%
	Tillman	**11.50%**	11.93%	13.01%
	Other Oklahoma Counties	**6.97%**	6.51%	6.78%
	Oklahoma Total	**51.52%**	53.02%	54.05%
	South Carolina	**1.56%**	-	-
	California	**2.33%**	2.06%	-
	Illinois	**7.39%**	6.55%	6.02%
	Indiana	**5.01%**	3.10%	3.73%
	Kansas	**0.79%**	2.76%	-
	Kentucky	**4.22%**	3.89%	5.91%
	Michigan	**4.02%**	5.63%	5.27%
	Montana	**4.79%**	5.18%	4.13%
	South Dakota	**3.38%**	3.21%	2.28%
	Texas	**2.65%**	2.39%	1.88%
	North Dakota	**2.02%**	2.20%	2.03%
	Other States	**10.32%**	10.01%	14.70%
	Total	**100.00%**	100.00%	100.00%

As of December 31, 2020, we are party to a Territorial Approval Agreement (Agreement) with five other associations in the states of Oklahoma, Colorado, Kansas and New Mexico. 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) December 31, 2025, or
3) 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
Cow/Calf	**20.47%**	20.19%	19.00%
Corn	**15.27%**	14.24%	14.56%
Crops - Other	**14.51%**	16.47%	16.96%
Wheat	**12.79%**	13.18%	14.08%
Rural Business	**11.42%**	9.26%	8.72%
Cotton	**8.41%**	9.74%	9.61%
Stockers	**5.24%**	6.61%	7.63%
Dairy	**4.23%**	4.62%	3.49%
Feedlot Cattle	**0.70%**	0.73%	0.57%
Others	**6.96%**	4.96%	5.38%
Total	**100.00%**	100.00%	100.00%

Our loan portfolio contains a concentration of cow and calf, corn, wheat and other crop producers. 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 13% consists of borrowers with income not solely from agricultural sources, an increase from 12% for 2019 and 2018.

The loans outstanding at December 31, 2020 for loans $250 thousand or less accounted for 20.0% of loan volume and 69.6% 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 - $250	**$ 49,319**	**623**	$ 53,344	665	$ 57,625	701
$251 - $500	**50,112**	**141**	47,532	135	44,224	123
$501 - $1,000	**58,041**	**83**	57,748	80	66,249	95
$1,001 - $5,000	**83,480**	**47**	75,042	41	80,170	46
$5,001 - $25,000	**5,966**	**1**	5,288	1	11,352	2
Total	**$ 246,918**	**895**	$ 238,954	922	$ 259,620	967

As of December 31, 2020, approximately 15% of our loans outstanding is attributable to 10 borrowers. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

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 $42.2 million at December 31, 2020, $41.7 million at December 31, 2019 and $49.6 million at December 31, 2018. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling $194 thousand in 2020, $221 thousand in 2019 and $220 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 commitment 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 $25.0 million at year-end 2020, $22.8 million at year-end 2019 and $24.3 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 loss in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower.

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	$ 11,153	$ 9,902	$ 1,370	$ 7,888	$ 30,313

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

High Risk Assets

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

(dollars in thousands)	**2020**	2019	2018
Nonaccrual loans:			
Real estate mortgage	**$ 1,078**	$ 1,610	$ 1,338
Production and intermediate-term	**223**	475	38
Total nonaccrual loans	**1,301**	2,085	1,376
Accruing restructured loans:			
Real estate mortgage	**253**	–	–
Accruing loans 90 days past due:			
Real estate mortgage	**–**	–	5,774
Total accruing loans 90 days past due	**–**	–	5,774
Total impaired loans	**$ 1,554**	$ 2,085	$ 7,150
Total high risk assets	**$ 1,554**	$ 2,085	$ 7,150
Nonaccrual loans to total loans	**0.53%**	0.87%	0.53%
High risk assets to total loans	**0.63%**	0.87%	2.75%
High risk assets to total shareholders' equity	**2.90%**	3.94%	14.00%

We had no other property owned for the years presented.

Total high risk assets decreased $531 thousand, or 25.5%, to $1.6 million at December 31, 2020 compared with year-end 2019. The reduction in high risk assets was largely due to 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 $784 thousand compared with December 31, 2019 due to three loans transferred to accrual status, pay down of loans, and one loan paid off. One customer comprises approximately 53% of the 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	**$ 1,078**	$ 1,317	$ 1,337
Restructured loans in nonaccrual status	**$ –**	$ –	$ 14

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

High risk asset volume is anticipated to increase in the future.

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	**95.06%**	94.91%	95.75%
OAEM	**3.59%**	3.41%	2.76%
Substandard	**1.35%**	1.68%	1.49%
Total	**100.00%**	100.00%	100.00%

During 2020, overall credit quality improved. Loans classified as Acceptable and OAEM were 98.65% at December 31, 2020, 98.32% at December 31, 2019 and 98.51% 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 increased, however, and remained at a low level of 1.11% at December 31, 2020, compared with no loan delinquencies at December 31, 2019 and 2.29% 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	**$ 498**	$ 702	$ 723
Charge-offs:			
Production and intermediate-term	–	3	–
Recoveries:			
Production and intermediate-term	**18**	4	–
Net recoveries	**(18)**	(1)	–
Loan loss reversal	**(96)**	(205)	(21)
Balance at December 31	**$ 420**	$ 498	$ 702
Net recoveries to average net loans	**<(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	**$ 232**	$ 182	$ 270
Production and intermediate-term	**154**	262	387
Agribusiness	**23**	44	25
Rural infrastructure	**11**	9	19
Rural residential real estate	**–**	1	1
Total	**$ 420**	$ 498	$ 702

The allowance for loan losses decreased $78 thousand from December 31, 2019, to $420 thousand at December 31, 2020. The decrease in allowance for loan losses was primarily due to the loan loss reversals totaling $96 thousand that was recorded due to an update by the Combined System Risk Rating Guidance to the PD curve. Net recoveries of $18 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 decreased $204 thousand from 2018 primarily due to loan loss reversals totaling $205 thousand that was recorded due to changes in the loan's PD and LGD ratings. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2020	2019	2018
Allowance as a percentage of:			
Loans	**0.17%**	0.21%	0.27%
Impaired loans	**27.03%**	23.88%	9.82%
Nonaccrual loans	**32.28%**	23.88%	51.02%

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	**$ 89**	$ 94	$ 94
Provision for/(Reversal of) reserve for unfunded commitments	**23**	(5)	–
Total	**$ 112**	$ 89	$ 94

The increase in provision for reserve for unfunded commitments in 2020 is due to an increase in available credit.

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. We recognize the critical nature of the "young," "beginning," and "small" farmer and rancher customer base to the overall future well-being of the agricultural industry as well as to the Association. We provide responsive, specially designed credit, financially related services and guidance. Following are FCA regulatory definitions for YBS farmers and ranchers.

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

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

	USDA	**2020**	2019	2018
Young	13.33%	**18.41%**	20.86%	20.81%
Beginning	25.39%	**16.85%**	18.86%	19.59%
Small	74.53%	**59.44%**	59.43%	58.11%

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 establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and
- Implement effective outreach programs to attract YBS farmers and ranchers.

Many of our typical sponsorship opportunities were cancelled in 2020 due to COVID-19. We were able to sponsor a couple of conferences in the first quarter of 2020 including the Red River Crops Conference and the Oklahoma Irrigation Conference. We were also able to sponsor various youth events and provided monetary support to organizations as needed even though many in person gatherings were cancelled.

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.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory; and
- Goals for capital committed to loans made to YBS farmers and ranchers in our territory.

	As of December 31, 2020			
	Loans	**% of Loans in Portfolio**	**Volume**	**Capital**
Young < or = 35 yrs. old	35	17.5%	$ 5,000,000	$ 750,000
Beginning < or = 10 yrs. on farm	35	19.5%	$ 5,000,000	$ 750,000
Small < or = $250,000 farm sales	75	50.7%	$ 6,500,000	$ 975,000

We met the goal for young farmers with the percentage of loans in portfolio at 18.6%. We also met the goals for small farmers with the percentage of loans in portfolio at 56.6%, loan volume of $7.4 million, and capital of $1.1 million. The year-end figures fell short on meeting young and beginning farmer volume goals.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize FSA loan guarantee program. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers.

CREDIT RISK MANAGEMENT

Participations purchased are a material part of the Association's loan portfolio. It is recognized that there are certain added risks to participation loans when dealing with entity relationships, loan servicing, and credit risks with loans outside of the Association's lending territory. In order to mitigate these risks the Association has established higher credit standards, additional reporting, and has limited the portfolio to FLCA only loans. The Association has a 20 year history of success in this area due to strong lending relationships, appropriate credit standards, and sound monitoring of the portfolio.

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. 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. We have adopted an individual lending limit maximum of 10% of lending and lease limit base for our highest quality borrowers.

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

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. We adjust the PD factors in the Combined System Risk Rating Guidance to account for our loss emergence period. 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 $1.2 million, compared with $2.5 million in 2019, and $3.3 million in 2018. The decrease in 2020 was primarily due to decrease in interest income and an increase to noninterest expense. The decrease in 2019 was primarily due to an increase in noninterest expense and a decrease in noninterest 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	**$ 2,502**	$ 3,301
Increase/(Decrease) from changes in:		
Interest income	**(2,032)**	500
Interest expense	**1,551**	(394)
Net interest income	**(481)**	106
Provision for credit losses	**(137)**	189
Noninterest income	**(79)**	(197)
Noninterest expense	**(741)**	(732)
Provision for income taxes	**133**	(165)
Total decrease in net income	**(1,305)**	(799)
Net income, current year	**$ 1,197**	$ 2,502

Return on average assets decreased to 0.47% from 0.95% in 2019, and return on average shareholders' equity decreased to 2.23% from 4.77% in 2019, primarily as a result of decrease in net income.

Net Interest Income

Net interest income for 2020 was $6.0 million compared with $6.5 million for 2019 and $6.4 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 decrease in net interest income was largely due to a decline in interest rates. The following table provides an analysis of the individual components of the change in net interest income during 2020 and 2019.

(dollars in thousands)	**2020 vs. 2019**	2019 vs. 2018
Net interest income, prior year	**$ 6,524**	$ 6,418
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	**(1,799)**	520
Interest rates paid	**1,379**	(388)
Volume of interest-bearing assets and liabilities	**(66)**	66
Interest income on nonaccrual loans	**5**	(92)
(Decrease)/Increase in net interest income	**(481)**	106
Net interest income, current year	**$ 6,043**	$ 6,524

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	**2.51%**	2.66%	2.63%
Interest rate on:			
Average loan volume	**4.58%**	5.31%	5.14%
Average debt	**2.47%**	3.13%	2.94%
Interest rate spread	**2.11%**	2.18%	2.20%

The decrease in interest rate spread resulted from a 73 basis point decrease in interest rates on average loan volume and a 66 basis point decrease in interest rates on average debt. The decrease in net interest margin in addition to the change in spread was due to lower earnings on our own capital.

Credit Loss Reversals

We monitor our loan portfolio and unfunded commitments on a regular basis to determine if any increase through provision for credit losses or decrease through a credit loss reversal in our allowance for loan losses or reserve for unfunded commitments is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio and unfunded commitments. We recorded net credit loss reversals of $73 thousand in 2020, compared with credit loss reversals of $210 thousand in 2019 and $21 thousand in 2018. The loan loss reversals of $96 thousand recorded during 2020 was primarily due to the Combined System Risk Rating Guidance. This update included an adjustment to the PD curve. The Association received the updated Combined System Risk Rating Guidance on September 14, 2020. The provision for reserve for unfunded commitments of $23 thousand was recorded during 2020 due to an increase in available credit. The loan loss reversals of $205 thousand recorded during 2019 were primarily due to changes in the loan's PD and LGD ratings. The reversal of reserve for unfunded commitments of $5 thousand was recorded during 2019 due to the loan's PD and LGD factors being applicable to individual loans with undisbursed commitments. The loan loss reversals of $21 thousand recorded during 2018 was primarily due to changes in the loans' PD and LGD ratings. We recorded no provision for reserve for unfunded commitments in 2018.

Noninterest Income

During 2020, we recorded noninterest income of $1.4 million, compared with $1.5 million in 2019 and $1.7 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. 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 $871 thousand in 2020 which includes additional patronage distribution from CoBank of $150 thousand due to CoBank's strong capital levels and financial results. Patronage earned from CoBank was $836 thousand in 2019, and $1.1 million in 2018, which included a one-time cash patronage distribution of $123 thousand relating to tax reform changes.

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

In 2020, we recorded a cash patronage of $7 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services, which will be paid in the following year. This compares with $6 thousand recorded in 2019 and $5 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 $54 thousand during 2020, $60 thousand during 2019, and $157 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 $143 thousand during 2020, which is distributed to us quarterly by CoBank. Mineral income decreased from $212 thousand in 2019 and $195 thousand in 2018. The decrease is attributed to the rapid oil demand destruction caused by the pandemic, plummeting crude oil prices, low natural gas prices, and decreased drilling activity and production.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2020 were $227 thousand, an increase of $10 thousand, from 2019, primarily due to increased loan volume.

Noninterest Expense

Noninterest expense for 2020 increased $741 thousand, or 13.3%, to $6.3 million compared with 2019 and $1.5 million, or 30.5% 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	**$ 2,844**	$ 2,557	$ 2,393	**11.22%**	6.85%
Occupancy & equipment	**129**	179	125	**(27.93%)**	43.20%
Purchased services from AgVantis	**967**	914	740	**5.80%**	23.51%
Merger related costs	**199**	–	–	**100.00%**	–
Supervisory & examination costs	**93**	91	83	**2.20%**	9.64%
Other	**1,900**	1,651	1,318	**15.08%**	25.27%
Total operating expense	**6,132**	5,392	4,659	**13.72%**	15.73%
Losses on other property owned, net	**–**	–	1	**–**	(100.00%)
Farm Credit Insurance Fund premium	**163**	162	162	**0.62%**	–
Total noninterest expense	**$ 6,295**	$ 5,554	$ 4,822	**13.34%**	15.18%

For the year ended December 31, 2020, total operating expense increased $740 thousand, or 13.7%, compared with the year ended December 31, 2019, primarily due to increases in salary and employee benefits primarily due to pension expenses related to changes in certain plan assumptions, and bonuses, purchased services for legal and accounting, and merger related expenses. These increases were partially offset by decreases in furniture and equipment expenses, cost of space, and training and travel expenses.

Provision for income taxes/Benefit from income taxes

We recorded no provision for or benefit from income taxes during 2020, compared with provision for income taxes of $133 thousand in 2019 and benefit from income taxes of $32 thousand in 2018. The decrease in 2020 was primarily due to the reevaluation of our deferred tax asset. 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 $200.2 million in 2020, $207.4 million in 2019 and $207.5 million in 2018.

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

Interest Rate Risk

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

Funds Management

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

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 $53.5 million, compared with $53.0 million at December 31, 2019 and $51.1 million at December 31, 2018.

The increase of $576 thousand in shareholders' equity reflects net income, partially offset by patronage refunds and net stock retirements. Our capital position is reflected in the following ratio comparisons.

	2020	2019	2018
Debt to shareholders' equity	**3.91:1**	3.83:1	4.43:1
Shareholders' equity as a percent of net loans	**21.72%**	22.21%	19.72%
Shareholders' equity as a percent of total assets	**20.35%**	20.70%	18.42%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2019 primarily due to increase in retained earnings and increase in net loans and total assets.

Retained Earnings

Our retained earnings increased $587 thousand to $53.2 million at December 31, 2020 from $52.6 million at December 31, 2019 and increased $2.5 million from $50.7 million at December 31, 2018. The increase in 2020 was a result of net income of $1.2 million, partially offset by $610 thousand of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $594 million in 2020, $670 thousand in 2019 and $604 thousand in 2018. During 2020, we declared patronage distributions of $610 thousand which was paid in February 2021.

Stock

Our total stock decreased $11 thousand to $354 thousand at December 31, 2020, from $365 thousand at December 31, 2019 and decreased from $374 thousand at December 31, 2018. The decrease during 2020 was due to $33 thousand of stock retirements, partially offset by $22 thousand of stock issuances. We require a stock investment for each borrower. The current initial investment requirement is 2.00% of the amount of the borrower's combined loan volume. 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).

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	**21.35%**	21.65%	20.19%	19.73%	7.00%
Tier 1 capital ratio	**21.35%**	21.65%	20.19%	19.73%	8.50%
Total regulatory capital ratio	**21.64%**	22.00%	20.55%	20.21%	10.50%
Tier 1 leverage ratio	**17.76%**	17.90%	16.18%	16.18%	5.00%
Unallocated retained earnings and URE equivalents (UREE) leverage ratio	**18.70%**	18.86%	16.97%	16.82%	1.50%
Permanent capital ratio	**21.41%**	21.71%	20.25%	19.82%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2020, we have met our goals. Due to our strong capital position, we will continue to be able to retire at-risk stock.

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

	2016	Regulatory Minimum
Permanent capital ratio	21.14%	7.00%
Total surplus ratio	20.94%	7.00%
Core surplus ratio	20.94%	3.50%

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

REGULATORY MATTERS

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

GOVERNANCE

Board of Directors

As of December 31, 2020, we were governed by a seven member board that provides direction and oversees our management. Of these directors, six are elected by the shareholders and one is 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; and
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

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

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

Audit Committee

The Audit Committee reports to the Board of Directors. At December 31, 2020, the Audit Committee was composed of three members of the Board of Directors. During 2020, six meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements;
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls or auditing matters; and
- oversight of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of the three members of the Board of Directors. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

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 our directors, officers, and 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, officers, and employees. This Code of Ethics applies to all Association employees and directors. 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.

Whistleblower Program

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

FORWARD-LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;

- weather, disease, including the continued coronavirus pandemic, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Loan Losses/Reserve for Unfunded Commitments

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

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

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

CUSTOMER PRIVACY

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

AgPreference

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Report of Management

The consolidated financial statements of AgPreference, 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 Deloitte & Touche, LLP 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 AgPreference, 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.

Steve Semmel
Chairman of the Board

John Grunewald
President and Chief Executive Officer

Jamey B. Mitchell, CPA
Chief Financial Officer

March 9, 2021

AgPreference

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes six members from the Board of Directors of Farm Credit of Western Oklahoma, ACA (Association). In 2020, six Committee meetings were held for AgPreference, ACA. 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, $130,000 for special review and incremental audit fees and $2,000 for non-audit related services for advice concerning the CECL accounting pronouncement.

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.

Lonnie Olson

Lonnie Olson, Chairman of the Audit Committee

Audit Committee Members
Stephanie Craighead
Tyler Kamp
Jimmie Purvine
Alan Schenk
Robert Williams

March 9, 2021

Report of Independent Auditors

To the Board of Directors of Farm Credit of Western Oklahoma, ACA

We have audited the accompanying consolidated financial statements of AgPreference, 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 AgPreference, 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.

Emphasis of Matter

As discussed in Note 16 to the consolidated financial statements, on January 1, 2021, the Association merged operations with Farm Credit of Western Oklahoma, ACA. Voting stockholders from both Associations approved the proposed plan of merger, and final approval from Farm Credit Administration was received on December 28, 2020. The merged association will conduct business as Farm Credit of Western Oklahoma, ACA. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 9, 2021

Consolidated Statement of Condition

(Dollars in Thousands)

	December 31		
	2020	2019	2018
ASSETS			
Loans	**$ 246,918**	$ 238,954	$ 259,620
Less allowance for loan losses	**420**	498	702
Net loans	**246,498**	238,456	258,918
Cash	**468**	717	777
Accrued interest receivable	**4,129**	4,664	5,747
Investment in CoBank, ACB	**8,311**	8,310	8,307
Premises and equipment, net	**1,215**	1,376	1,303
Prepaid benefit expense	**1,148**	960	679
Deferred tax asset	**-**	-	133
Other assets	**1,312**	1,363	1,425
Total assets	**$ 263,081**	$ 255,846	$ 277,289
LIABILITIES			
Note payable to CoBank, ACB	**$ 206,653**	$ 198,653	$ 222,336
Advance conditional payments	**922**	2,386	2,182
Accrued interest payable	**329**	427	521
Patronage distributions payable	**610**	594	670
Accrued benefits liability	**116**	117	120
Reserve for unfunded commitments	**112**	89	94
Other liabilities	**793**	610	295
Total liabilities	**$ 209,535**	$ 202,876	$ 226,218
Commitments and Contingencies (See Note 13)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	**10**	10	10
Capital stock	**344**	355	364
Unallocated retained earnings	**53,192**	52,605	50,697
Total shareholders' equity	**53,546**	52,970	51,071
Total liabilities and shareholders' equity	**$ 263,081**	$ 255,846	$ 277,289

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	**$ 11,016**	$ 13,048	$ 12,547
Other	**1**	1	2
Total interest income	**11,017**	13,049	12,549
INTEREST EXPENSE			
Note payable to CoBank, ACB	**4,955**	6,494	6,109
Other	**19**	31	22
Total interest expense	**4,974**	6,525	6,131
Net interest income	**6,043**	6,524	6,418
Credit loss reversal	**(73)**	(210)	(21)
Net interest income after credit loss reversal	**6,116**	6,734	6,439
NONINTEREST INCOME			
Loan fees	**227**	217	165
Patronage distribution from Farm Credit institutions	**878**	842	1,068
Farm Credit Insurance Fund distribution	**54**	60	157
Mineral income	**143**	212	195
Other noninterest income	**74**	124	67
Total noninterest income	**1,376**	1,455	1,652
NONINTEREST EXPENSE			
Salaries and employee benefits	**2,844**	2,557	2,393
Occupancy and equipment	**129**	179	125
Purchased services from AgVantis, Inc.	**967**	914	740
Losses on other property owned, net	**-**	-	1
Farm Credit Insurance Fund premium	**163**	162	162
Merger related costs	**199**	-	-
Supervisory and examination costs	**93**	91	83
Other noninterest expense	**1,900**	1,651	1,318
Total noninterest expense	**6,295**	5,554	4,822
Income before income taxes	**1,197**	2,635	3,269
Provision for/(Benefit from)income taxes	**-**	133	(32)
Net income/Comprehensive Income	**$ 1,197**	$ 2,502	$ 3,301

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2017	$ 10	$ 372	$ 48,066	$ 48,448
Net income/Comprehensive income			3,301	3,301
Stock issued	-	20		20
Stock retired	-	(28)		(28)
Patronage distributions: Cash			(670)	(670)
Balance at December 31, 2018	10	364	50,697	51,071
Net income/Comprehensive income			2,502	2,502
Stock issued	-	13		13
Stock retired	-	(22)		(22)
Patronage distributions: Cash			(594)	(594)
Balance at December 31, 2019	10	355	52,605	52,970
Net income/Comprehensive income			1,197	1,197
Stock issued	-	22		22
Stock retired	-	(33)		(33)
Patronage distributions: Cash			(610)	(610)
Balance at December 31, 2020	**$ 10**	**$ 344**	**$ 53,192**	**$ 53,546**

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	**$ 1,197**	$ 2,502	$ 3,301
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**135**	136	95
Credit loss reversal	**(73)**	(210)	(21)
Stock patronage from CoBank, ACB	**-**	(1)	(1)
Gains on sales of premises and equipment	**(8)**	(84)	-
Losses on sales of other property owned	**-**	-	1
Change in assets and liabilities:			
Decrease/(Increase) in deferred tax asset	**-**	133	(33)
Decrease/(Increase) in accrued interest receivable	**535**	1,083	(948)
Increase in prepaid benefit expense	**(188)**	(281)	(190)
Decrease/(Increase) in other assets	**51**	63	(67)
(Decrease)/Increase in accrued interest payable	**(98)**	(94)	118
Decrease in accrued benefits liability	**(1)**	(3)	(3)
Increase/(Decrease) in other liabilities	**183**	315	(151)
Total adjustments	**536**	1,057	(1,200)
Net cash provided by operating activities	**1,733**	3,559	2,101
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase)/Decrease in loans, net	**(7,946)**	20,667	(20,435)
Increase in investment in CoBank, ACB	**(1)**	(3)	(339)
Expenditures for premises and equipment	**-**	(209)	(60)
Proceeds from sales of premises and equipment	**34**	84	-
Proceeds from sales of other property owned	**-**	-	3
Net cash (used in)/provided by investing activities	**(7,913)**	20,539	(20,831)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on/(repayment of) note payable to CoBank, ACB	**8,000**	(23,683)	18,066
(Decrease)/Increase in advance conditional payments	**(1,464)**	204	1,635
Capital stock retired	**(33)**	(22)	(28)
Capital stock issued	**22**	13	20
Cash patronage distributions paid	**(594)**	(670)	(604)
Net cash provided by/(used in) financing activities	**5,931**	(24,158)	19,089
Net (decrease)/increase in cash	**(249)**	(60)	359
Cash at beginning of year	**717**	777	418
Cash at end of year	**$ 468**	$ 717	$ 777
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	**$ 5,072**	$ 6,619	$ 6,013
Income taxes	**$ (56)**	$ -	$ 33
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Stock patronage from CoBank, ACB	**$ -**	$ 1	$ 1
Net recoveries	**$ (18)**	$ (1)	$ -
Patronage distributions payable	**$ 610**	$ 594	$ 670

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: AgPreference, ACA and its subsidiaries, AgPreference Credit Association, FLCA, (Federal Land Credit Association (FLCA)) and AgPreference Credit Association, 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 Jackson, Tillman, Kiowa, Cotton, Harmon and Greer in the state of Oklahoma.

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 and term life insurance, advance conditional payment accounts, leasing and fee appraisal services.

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 3120 North Main, Altus, Oklahoma 73521-1305 or calling (580) 482-3030 or (800) 727-3276. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank’s and District’s financial condition, changes in financial condition, and results of operations. In addition, the CoBank Annual Report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation.

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

C. On January 1, 2021, the Association merged with Farm Credit of Western Oklahoma, ACA, an association headquartered in Woodward, Oklahoma. Further information is found in Note 16.

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 AgPreference Credit Association, PCA and AgPreference Credit Association, 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 and the determination of fair value of financial instruments.

Recently Issued Accounting Pronouncements

Adopted Guidance

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

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

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

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

Guidance Pending Adoption

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

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

Summary of the Association's Significant Accounting Policies

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

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

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

   A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan. Certain loan modifications that resulted from circumstances related to COVID-19 are eligible under the FCA issued guidance and the Association is not required to report them as a TDR.

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

On September 10, 2020, the FCA issued a final rule on criteria to reinstate nonaccrual loans that clarifies the factors that System institutions should consider when categorizing high risk loans and placing them in nonaccrual status. The rule also revised the criteria by which loans are reinstated to accrual status, and it revised the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status. The application of this rule did impact the classification of three nonaccrual loans, which moved to accrual status 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 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. We adjust the PD factors in the combined System risk rating guidance to account for our loss emergence period. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

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

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

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

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

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

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the building is 30 to 50 years and ranges from 1 to 10 years for furniture, equipment and automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

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

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

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

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

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

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. 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.

K. 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.

(dollars in thousands)	December 31 2020	2019	2018
Real estate mortgage	**$ 191,182**	$ 183,033	$ 196,400
Production and intermediate-term	**28,583**	34,396	41,727
Agribusiness	**23,429**	19,976	18,468
Rural infrastructure	**3,610**	1,416	2,803
Rural residential real estate	**114**	133	222
Total loans	**$ 246,918**	$ 238,954	$ 259,620

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	$ 1,632	$ 1,623	$100,445	$ –	$102,077	$ 1,623
Production and intermediate-term	1,650	–	109	–	1,759	–
Agribusiness	11,126	4,237	–	–	11,126	4,237
Rural infrastructure	3,610	–	–	–	3,610	–
Total	$ 18,018	$ 5,860	$100,554	$ –	$118,572	$ 5,860

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 $42.2 million, $41.7 million and $49.5 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 $194 thousand for 2020, $221 thousand for 2019 and $220 thousand in 2018 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of $25.0 million at year-end 2020, $22.8 million at year-end 2019 and $24.3 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 percent guarantee from the FSA which would insure that our loss on a guaranteed loan would not exceed 10 percent of the loss in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured.

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

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

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

	2020	2019	2018
Real estate mortgage			
Acceptable	**94.69%**	95.31%	96.46%
OAEM	**3.77%**	2.97%	1.83%
Substandard	**1.54%**	1.72%	1.71%
Total	**100.00%**	100.00%	100.00%
Production and intermediate-term			
Acceptable	**93.00%**	89.74%	90.31%
OAEM	**5.66%**	7.77%	8.44%
Substandard	**1.34%**	2.49%	1.25%
Total	**100.00%**	100.00%	100.00%
Agribusiness			
Acceptable	**100.00%**	100.00%	100.00%
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	**100.00%**	100.00%	100.00%
Total	**100.00%**	100.00%	100.00%
Total Loans			
Acceptable	**95.06%**	94.91%	95.75%
OAEM	**3.59%**	3.41%	2.76%
Substandard	**1.35%**	1.68%	1.49%
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	**$ 1,331**	$ 1,317	$ 1,337
Past due	**223**	768	39
Total nonaccrual loans	**1,554**	2,085	1,376
Accrual loans 90 days or more past due	**–**	–	5,774
Total impaired accrual loans	**–**	–	5,774
Total impaired loans	**$ 1,554**	$ 2,085	$ 7,150

The Association had no loans classified as accruing restructured 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	**$ 1,078**	$ 1,610	$ 1,338
Production and intermediate-term	**223**	475	38
Total nonaccrual loans	**1,301**	2,085	1,376
Accruing restructured loans			
Real estate mortgage	**253**	–	–
Total accruing restructured loans	**253**	–	–
Accruing loans 90 days past due			
Real estate mortgage	**–**	–	5,774
Total accruing loans 90 days past due	**–**	–	5,774
Total impaired loans	**1,554**	2,085	7,150
Total high risk assets	**$ 1,554**	$ 2,085	$ 7,150

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:					
Production and intermediate-term	$ –	$ –	$ –	$ 308	$ –
Total	$ –	$ –	$ –	$ 308	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,331	$ 1,596		$ 1,483	$ 8
Production and intermediate-term	223	467		2	–
Total	$ 1,554	$ 2,063		$ 1,485	$ 8
Total impaired loans:					
Real estate mortgage	$ 1,331	$ 1,596	$ –	$ 1,483	$ 8
Production and intermediate-term	223	467	–	310	–
Total	$ 1,554	$ 2,063	$ –	$ 1,793	$ 8

(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:					
Production and intermediate-term	$ 474	$ 469	$ 57	$ 239	$ –
Total	$ 474	$ 469	$ 57	$ 239	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,610	$ 1,754		$ 2,720	$ 73
Production and intermediate-term	1	218		41	3
Total	$ 1,611	$ 1,972		$ 2,761	$ 76
Total impaired loans:					
Real estate mortgage	$ 1,610	$ 1,754	$ –	$ 2,720	$ 73
Production and intermediate-term	475	687	57	280	3
Total	$ 2,085	$ 2,441	$ 57	$ 3,000	$ 76

(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:					
Real estate mortgage	$ –	$ –	$ –	$ 122	$ –
Production and intermediate-term	4	57	3	3	–
Total	$ 4	$ 57	$ 3	$ 125	$ –
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 7,112	$ 6,968		$ 4,617	$ 214
Production and intermediate-term	34	243		272	17
Total	$ 7,146	$ 7,211		$ 4,889	$ 231
Total impaired loans:					
Real estate mortgage	$ 7,112	$ 6,968	$ –	$ 4,739	$ 214
Production and intermediate-term	38	300	3	275	17
Total	$ 7,150	$ 7,268	$ 3	$ 5,014	$ 231

* 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	**$ 8**	$ 3	$ 95
Accrual loans 90 days or more past due	**–**	73	136
Interest income recognized on impaired loans	**$ 8**	$ 76	$ 231

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	**$ 86**	$ 135	$ 144
Less: interest income recognized	**8**	3	95
Interest income not recognized	**$ 78**	$ 132	$ 49

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	$ 1,754	$ –	$ 1,754	$ 192,591	$ 194,345	$ –
Production and intermediate-term	1,025	222	1,247	28,198	29,445	–
Agribusiness	–	–	–	23,533	23,533	–
Rural infrastructure	–	–	–	3,610	3,610	–
Rural residential real estate	–	–	–	114	114	–
Total	$ 2,779	$ 222	$ 3,001	$ 248,046	$ 251,047	$ –

	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	$ –	$ 293	$ 293	$ 186,035	$ 186,328	$ –
Production and intermediate-term	6	475	481	35,150	35,631	–
Agribusiness	–	–	–	20,110	20,110	–
Rural infrastructure	–	–	–	1,416	1,416	–
Rural residential real estate	–	–	–	133	133	–
Total	$ 6	$ 768	$ 774	$ 242,844	$ 243,618	$ –

	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	$ 260	$ 5,797	$ 6,057	$ 194,763	$ 200,820	$ 5,774
Production and intermediate-term	14	3	17	42,926	42,943	–
Agribusiness	–	–	–	18,581	18,581	–
Rural infrastructure	–	–	–	2,800	2,800	–
Rural residential real estate	–	–	–	223	223	–
Total	$ 274	$ 5,800	$ 6,074	$ 259,293	$ 265,367	$ 5,774

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	**$ –**	**$ –**	$ 408	$ 408	$ –	$ –
Total	**$ –**	**$ –**	$ 408	$ 408	$ –	$ –

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.

The Association had no TDRs that occurred within the previous 12 months of that year and for which there was a payment default. There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2020, 2019 and 2018.

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

	Loans modified as TDRs			TDRs in Nonaccrual Status*		
(dollars in thousands)	**2020**	2019	2018	**2020**	2019	2018
Real estate mortgage	**$ 253**	$ 351	$ –	**$ –**	$ 351	$ –
Production and intermediate-term	**–**	–	14	**–**	–	14
Total	**$ 253**	$ 351	$ 14	**$ –**	$ 351	$ 14

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

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

(dollars in thousands)	Balance at December 31, 2019	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2020
Real estate mortgage	$ 182	$ –	$ –	$ 50	$ 232
Production and intermediate-term	262	–	18	(126)	154
Agribusiness	44	–	–	(21)	23
Rural infrastructure	9	–	–	2	11
Rural residential real estate	1	–	–	(1)	–
Total	$ 498	$ –	$ 18	$ (96)	$ 420

(dollars in thousands)	Balance at December 31, 2018	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2019
Real estate mortgage	$ 270	$ –	$ –	$ (88)	$ 182
Production and intermediate-term	387	3	4	(126)	262
Agribusiness	25	–	–	19	44
Rural infrastructure	19	–	–	(10)	9
Rural residential real estate	1	–	–	–	1
Total	$ 702	$ 3	$ 4	$ (205)	$ 498

(dollars in thousands)	Balance at December 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at December 31, 2018
Real estate mortgage	$ 208	$ –	$ –	$ 62	$ 270
Production and intermediate-term	452	–	–	(65)	387
Agribusiness	36	–	–	(11)	25
Rural infrastructure	20	–	–	(1)	19
Rural residential real estate	1	–	–	–	1
Agricultural export finance	6	–	–	(6)	–
Total	$ 723	$ –	$ –	$ (21)	$ 702

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	**$ 89**	$ 94	$ 94
Provision for/(Reversal of) reserve for unfunded commitments	**23**	(5)	–
Total	**$ 112**	$ 89	$ 94

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	$ –	$ 232	$ 1,331	$ 193,014
Production and intermediate-term	–	154	223	29,222
Agribusiness	–	23	–	23,533
Rural infrastructure	–	11	–	3,610
Rural residential real estate	–	–	–	114
Total	$ –	$ 420	$ 1,554	$ 249,493

	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	$ –	$ 182	$ 1,610	$ 184,718
Production and intermediate-term	57	205	475	35,156
Agribusiness	–	44	–	20,110
Rural infrastructure	–	9	–	1,416
Rural residential real estate	–	1	–	133
Total	$ 57	$ 441	$ 2,085	$ 241,533

	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	$ –	$ 270	$ 7,112	$ 193,708
Production and intermediate-term	3	384	38	42,905
Agribusiness	–	25	–	18,581
Rural infrastructure	–	19	–	2,800
Rural residential real estate	–	1	–	223
Total	$ 3	$ 699	$ 7,150	$ 258,217

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 0.21 percent of the outstanding common stock of CoBank at December 31, 2020, compared with 0.23 percent at December 31, 2019 and 0.24 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	**$ 55**	$ 55	$ 55
Buildings and leasehold improvements	**2,035**	2,035	2,029
Furniture, equipment and automobiles	**812**	937	944
	2,902	3,027	3,028
Less: accumulated depreciation	**1,687**	1,651	1,725
Total	**$ 1,215**	$ 1,376	$ 1,303

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	**$ 240,000**	$ 260,000	$ 245,000
Outstanding principal and accrued interest balance	**$ 206,979**	$ 199,076	$ 222,851
Average outstanding principal balance under the line of credit	**$ 200,168**	$ 207,393	$ 207,487
Weighted average interest rate	**2.48%**	3.13%	2.94%

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	**$ 41,838**	$ 39,649	$ 38,599
Average rates	**0.78%**	2.12%	1.73%

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. If the Association is unable to retire protected stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock. Our bylaws generally permit stock to be retired at the discretion of the Board of Directors and in compliance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2020, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

C. Regulatory Capitalization Requirements and Restrictions

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

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

Ratio	Primary Components of Numerator	Denominator	2020	2019	2018	Minimum with Buffer*	Minimum Requirement
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity)[1]	Risk-adjusted assets	21.35%	21.65%	20.19%	7.0%	4.5%
Tier 1 Capital	CET1 Capital, noncumulative perpetual preferred stock	Risk-adjusted assets	21.35%	21.65%	20.19%	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	21.64%	22.00%	20.55%	10.5%	8.0%
Tier 1 Leverage**	Tier 1 Capital	Total assets	17.76%	17.90%	16.18%	5.0%	4.0%
Unallocated Retained Earnings and URE Equivalents (UREE) Leverage	URE and URE Equivalents	Total assets	18.70%	18.86%	16.97%	–	1.5%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt, subject to certain limits	Risk-adjusted assets	21.41%	21.71%	20.25%	–	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, 67,894 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, 725 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 Investor Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) - Available to outside parties.

Class E Common 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, 2,042 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.

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	Protected	Capital
Shares outstanding at December 31, 2019	2,042	70,876
Issuances	–	4,346
Retirements	–	(6,603)
Shares outstanding at December 31, 2020	2,042	68,619

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, F and G 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. Additionally, patronage distributions may be allocated to System institutions with whom or for whom the Association conducts specified business transactions. 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 $594 thousand in 2020, $670 thousand in 2019 and $604 thousand in 2018. The Association declared a $610 thousand cash patronage during 2020 which was distributed in February 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 in the following order of priority: first, to the holders pro rata of any classes of preferred stock until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders; second, to the holders, pro rata of all classes of common stock, until an amount equal to the aggregate par value of all such shares then issued and outstanding had been distributed to such holders; third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fourth, to the holders of allocated surplus evidenced by non-qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance; fifth, any remaining assets of the Association after such distributions shall be distributed to present and former members and other patrons on a patronage basis, to the extent practicable. Any remaining assets of the Association after such distributions shall be distributed to holders of all classes of common stock, pro rata.

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 50.96 percent of its patronage-sourced net income to its patrons.

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	**$ 871**	$ 836	$ 1,063
Farm Credit Foundations	**7**	6	5
Total	**$ 878**	$ 842	$ 1,068

Patronage distributed from CoBank was in cash. 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 $150 thousand due to CoBank's strong capital levels and financial results. The amount earned and accrued in 2019 and 2018 was paid by CoBank in March of the following year. In 2018, the Association received a one-time cash patronage distribution from CoBank of $123 relating to tax reform changes.

Patronage distributed by Farm Credit Foundations was accrued at the end of the year and will be paid in March 2021. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 9 – INCOME TAXES

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

	Year Ended December 31		
(dollars in thousands)	**2020**	2019	2018
Deferred:			
Federal	**$ –**	$ 108	$ (31)
State	**–**	25	(1)
Total provision for/(benefit from) income taxes	**$ –**	$ 133	$ (32)

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	**$ 251**	$ 553	$ 686
State tax, net	**–**	19	(1)
Effect of nontaxable entity	**(217)**	(464)	(617)
Change in valuation allowance	**(24)**	55	–
Qualified patronage refunds to borrowers	**(9)**	(75)	(95)
Change in tax rates	**–**	–	–
Provision to return difference	**(1)**	40	–
Other	**–**	5	(5)
Provision for/(Benefit from) income taxes	**$ –**	$ 133	$ (32)

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	**$ 68**	$ 96	$ 126
Nonaccrual loan interest	**49**	42	33
Gross deferred tax assets	**117**	138	159
Less: valuation allowance	**(38)**	(67)	–
Deferred income tax liabilities:			
Bank patronage allocations	**(40)**	(40)	–
Excess book depreciation > Tax depreciation	**(39)**	(24)	(19)
Sale of premises and equipment	**–**	(7)	(7)
Gross deferred tax liability	**(79)**	(71)	(26)
Net deferred tax asset	**$ –**	$ –	$ 133

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

The Association recorded a valuation allowance of $38 thousand in 2020 and $67 thousand in 2019. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

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

NOTE 10 – EMPLOYEE BENEFIT PLANS

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

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

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated ownership percentage of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $19.5 million in 2020, $6.8 million in 2019 and $10.8 million in 2018. The Association's allocated share of plan expenses included in salaries and employee benefits was $358 thousand in 2020, $145 thousand in 2019 and $223 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 $546 thousand in 2020, $426 thousand in 2019 and $413 thousand 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 the pension contributions will be included with Western Oklahoma as a result of the merger. 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 $1 thousand in 2020, $2 thousand in 2019 and $1 thousand in 2018. The Association made no cash contributions in 2020, $1 thousand in 2019 and $2 thousand in 2018.

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 $149 thousand in 2020, $154 thousand in 2019 and $136 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	**$ 24,472**	$ 24,102	$ 12,279
New loans	**3,176**	14,507	15,215
Repayments	**(8,750)**	(14,182)	(15,873)
Reclassifications*	**(16,501)**	45	12,481
Ending balance	**$ 2,397**	$ 24,472	$ 24,102

* 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 $967 thousand in 2020, $914 thousand in 2019 and $740 thousand in 2018 to AgVantis for technology services and $4 thousand in 2020, $1 thousand in 2019 and $12 thousand in 2018 to CoBank for operational services. The Association paid $88 thousand in 2020, $68 thousand in 2019 and $78 thousand in 2018 to Foundations for human resource services.

NOTE 12 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2020, $30.3 million of commitments to extend credit were outstanding.

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

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.

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

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

	Fair Value Measurement Using			Total Fair
(dollars in thousands)	Level 1	Level 2	Level 3	Value
Assets:				
2020				
Loans	**$ –**	**$ –**	**$ –**	**$ –**
2019				
Loans	$ –	$ –	$ 417	$ 417
2018				
Loans	$ –	$ –	$ 14	$ 14

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

Valuation Techniques

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

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	**$ 1,510**	**$ 1,447**	**$ 1,572**	**$ 1,514**	**$ 6,043**
(Credit loss reversal)/Provision for credit losses	**(27)**	**26**	**19**	**(91)**	**(73)**
Noninterest expense, net	**889**	**1,344**	**1,168**	**1,518**	**4,919**
Net income	**$ 648**	**$ 77**	**$ 385**	**$ 87**	**$ 1,197**

	2019				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 1,680	$ 1,721	$ 1,594	$ 1,529	$ 6,524
(Credit loss reversal)/Provision for credit losses	(167)	38	62	(143)	(210)
Noninterest expense, net	1,048	920	828	1,436	4,232
Net income	$ 799	$ 763	$ 704	$ 236	$ 2,502

	2018				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 1,582	$ 1,578	$ 1,615	$ 1,643	$ 6,418
(Credit loss reversal)/Provision for credit losses	(119)	139	(88)	47	(21)
Noninterest expense, net	735	879	611	913	3,138
Net income	$ 966	$ 560	$ 1,092	$ 683	$ 3,301

NOTE 16 – SUBSEQUENT EVENTS

On January 1, 2021, the Association merged operations with Farm Credit of Western Oklahoma, ACA. The merger successfully united two outstanding organizations that created a financial institution of greater capital, capacity, and human resources to serve agriculture and rural Oklahoma. The merged association will conduct business as Farm Credit of Western Oklahoma, ACA with headquarters located in Woodward, Oklahoma.

The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification 805 Business Combinations (ASC 805). As the accounting acquirer, Farm Credit of Western Oklahoma, ACA recognized the identifiable assets acquired and liabilities assumed in the merger as of January 1, 2021 at their respective fair values. There was no goodwill recorded in connection with the transaction. The fair values are based on various assumptions that management believes are reasonable utilizing information currently available.

The Association has evaluated subsequent events through March 9, 2021 which is the date the financial statements were issued, and no other 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 as of December 31, 2020:

Location	Description	Form of Ownership
3120 North Main Altus, Oklahoma	Altus Administration and Altus Branch Office Building	Owned
3100 North Main Altus, Oklahoma	Office Building (Leased out)	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 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 OF AGPREFERENCE, ACA

Lonnie Olson	Chairman of the AgPreference Board at December 31, 2020. Appointed Director. Mr. Olson became Chairman of the Audit Committee for Farm Credit of Western Oklahoma in January 2021. He is a graduate of Oklahoma State University. Mr. Olson resides in Hobart, Oklahoma. He has worked for Edward Jones Investments as a Financial Advisor since 1997. He also has rental properties and a cattle operation. He is President of the Hobart Community Foundation, serves on the board of Kiowa County Economic Development and on the Kiowa County 529 Ambulance Board. He is President of a private corporation and a member of the Hobart Kiwanis Club. Mr. Olson is a member of the Hobart Church of Christ. Mr. Olson is serving a three-year term which expires in 2023.
Roger Fischer	Vice-Chairman of the AgPreference Board at December 31, 2020. Mr. Fischer became Chairman of the Risk/Technology Committee for Farm Credit of Western Oklahoma in January 2021. Mr. Fischer also served as the Audit Committee Chairman for AgPreference through December 31, 2020. Mr. Fischer has been farming since 1976. He is a 1975 graduate of Cameron University. Mr. Fischer has been an Association member for 38 years. He is a member of the board of directors of Oklahoma Cotton Council. Mr. Fischer is a member of the Peace Congregational Church. Mr. Fischer is serving a three-year term which expires in 2021.
Brandon Denton	Director. Mr. Denton's principal occupation is farming and ranching and he currently serves as a member of the Risk/Technology Committee for Farm Credit of Western Oklahoma. He also has a custom hay baling operation. He has been an Association member for 8 years. He also serves on the Conservation District Board for Jackson County. He is a member of the Church of Christ. Mr. Denton is serving a three-year term which expires in 2023..
John Huddleston	Director. Mr. Huddleston's principal occupation has been farming since 1965 and he currently serves as a member of the Risk/Technology Committee for Farm Credit of Western Oklahoma. He is an auctioneer and real estate broker. Mr. Huddleston has been an Association member for 43 years. He is a member of the Masonic Lodge and the First Baptist Church. Mr. Huddleston is serving a three-year term which expires in 2021.
Robert Peeler	Director. Mr. Peeler's principal occupation is farming and ranching and he currently serves as a member of the Compensation Committee for Farm Credit of Western Oklahoma. He has been involved in farming since 2004. He has been an Association member for 7 years. He also serves of the Reed Water Corporation Board of Directors and the Greer County FSA Farm Committee. He also serves on the Reed Volunteer Fire Department and is a member of the Sulphur Baptist Church. Mr. Peeler is serving a three-year term which expires in 2023.
Robert Williams	Director. Mr. Williams' principal occupation is farming/ranching and he currently serves as a member of the Audit Committee for Farm Credit of Western Oklahoma. He has been involved in farming since 1990. Mr. Williams has been an Association member for 25 years. He is a graduate of Oklahoma State University with a degree in ag economics. He also serves on the Board of Regents for Western Oklahoma State College, the board of Baptist Medical and Dental Missions International, Harmon County Civic Trust and the Harmon County Water Corporation. Mr. Williams is serving a three-year term which expires in 2022.
Donnie Bowles	Director, resigned effective December 31, 2020. Mr. Bowles' principal occupation has been farming since 1966. He farms wheat and has a cattle operation. He has been an Association

member for 42 years. He served on the Board of Education at Big Pasture School District for 14 years. Mr. Bowles is a member of the Central Baptist Church.

Joe Kelly	Director, served a three-year term which expired in 2020. Mr. Kelly's principal occupation has been farming since 1976. He has been an Association member for 38 years. He presently serves as President of the Humphreys Farmers Coop Board, whose principal business is cotton ginning, wheat merchandising, storage and selling fertilizer to area farmers. He also serves on the board of Great Plains Commodities, LLC. Mr. Kelly is a member of Altus Nazarene Church and Gideon International.
Brent York	Director, served a three-year term which expired in 2020. Mr. York's principal occupation has been farming since 1980. He currently serves as County Commissioner for Greer County, District I. He has been an Association member for 34 years and has served on the AgPreference, ACA Board since 1999. He is retired from USDA, Natural Resources Conservation Service. Mr. York is on the board of trustees of South Western Oklahoma Development Authority. He is a member of the Church of Christ.

DIRECTORS OF FARM CREDIT OF WESTERN OKLAHOMA, ACA

The AgPreference, ACA directors and the following directors from Farm Credit of Western Oklahoma, ACA are the directors for the merged association, Farm Credit of Western Oklahoma, ACA as of January 1, 2021.

Steve Semmel	Chairman. Mr. Semmel became Chairman of the Board in January 2021 and was first elected to the Board in 2003. For the past five years he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of wheat, cow/calf, stocker cattle, hay, and improved grasses. He is a partner with his son in S & S Farm & Ranch, a cattle-wheat business and a partner and Secretary of NAPA, an auto parts store in Woodward, Oklahoma. Mr. Semmel is a partner and Vice-President of OK Rental Equipment, an oilfield equipment rental business and is a member of the Woodward County Excise Board, a non-elected county budget and tax board. He is a former member/Chairman of the Woodward Elks Rodeo Committee, a local organization to promote the annual rodeo. Mr. Semmel was elected to a three-year term expiring in 2021.
Kenton Javorsky	Vice Chairman. Mr. Javorsky became Vice Chairman of the board in January 2021 and was first elected to the Board in 2009. For the past five years he has been engaged in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, cotton, milo, sesame, hay, canola, and cow/calf production, together with custom planting and custom harvesting. Mr. Javorsky is President of Welderson Farms Inc., a family farming operation. Mr. Javorsky serves as a member of the Corn Bible Academy Relocation Committee, a Christian school located in Corn, Oklahoma. He was formerly on the Board of Directors of Midwest Farmer's Coop, a cotton gin, feed, fertilizer and fuel coop, a former board member of Friends of Christian Education, an education group in Western Oklahoma, and former board member and Chairman of the Western Oklahoma Christian School, a private elementary school in Clinton, Oklahoma. Mr. Javorsky was elected to a three-year term expiring in 2021.
Steve Calhoun	Director. Mr. Calhoun joined the Board in October 2014 and has been an elected director since 2012, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Calhoun became Vice-Chairman of the Risk/Technology Committee in January 2021. For the past five years he has been involved in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, wheat, and hay production. Mr. Calhoun is an employee and manager of Ross Seed Company, a farm supply store in Chickasha, Oklahoma. He is President of Bar-K Inc., a family farming corporation and owner of Steve Calhoun Farms, a family farming operation. Mr. Calhoun serves as a director for the Grady County Farm Bureau Board, a volunteer organization of farm and ranch families and serves as Treasurer for the Grady County Alfalfa Board, an organization to promote the Grady County alfalfa industry. He is a member of the Special Young Adults Program Board, an organization supporting young adults with special needs. He previously served as board member, Vice-President and President of the Oklahoma Crop Improvement Foundation and previously as board member, Vice-President and President of the Grady County FSA Committee. Mr. Calhoun was elected to a three-year term expiring in 2021.

Ricky Carothers	Director. Mr. Carothers joined the Board in October 2014 and has been an elected director since 2003, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Carothers currently serves as a member of the Compensation Committee. For the past five years he has been engaged in production agriculture in Southwestern Oklahoma with principal enterprises consisting of wheat, cotton, cow/calf, and stocker cattle production. He is Manager of Carothers Farms, a family farming operation. He is a member of the Farm Service Agency County Committee, a U.S. Department of Agriculture farm community organization. Mr. Carothers was elected to a three-year term expiring in 2021.
Stephanie Craighead	Appointed Director. Ms. Craighead became Vice-Chairwoman of the Audit Committee in January 2021. Ms. Craighead was first appointed to the Board in July 2015. For the past five years she has been engaged in production agriculture in Northwest Oklahoma with a principal enterprise of beef cattle. In October 2014, Ms. Craighead accepted the Chief Financial Officer position with Road Runner Trucking LLC and Road Runner Crane LLC, a Woodward, Oklahoma trucking and crane service company, and held that position until November 2016. Ms. Craighead is a member of Craighead Ranch LLC and member-Secretary of C & S Cattle Company, both of which are family ranching operations. She is a member of Twin Hills LLC, a residential development company and a member of Craighead-ILIFF LLC, a commercial property business. Ms. Craighead is a Plains Indians and Pioneer Museum Board member and Treasurer, an organization to collect and preserve the history of Northwest Oklahoma. Ms. Craighead is a CPA, and past member of the Oklahoma Society of Certified Public Accountants, and a Seminar Instructor for various areas of taxation. In addition, Ms. Craighead and her husband are involved in real estate development. She is a past board member of Craighead & Dersch and a past board member of the Miss N.W. Passage Pageants. Ms. Craighead was appointed to a three-year term expiring in 2021.
David Dolch	Director. Mr. Dolch joined the Board in October 2014 and has been an elected director since 2012, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Dolch became Vice-Chairman of the Compensation Committee in January 2021. For the past five years he has been engaged in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, club calves, and cattle semen sales. Mr. Dolch is an employee and assistant manager of Clinton Livestock Auction, a livestock auction service. He also serves as President of Verden Ag Boosters, an organization supporting local youth. Mr. Dolch was elected to a three-year term expiring in 2023.
Mark Graf	Director. Mr. Graf was first elected to the Board in 2016 and he currently serves as a member of the Risk/Technology Committee. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, cow/calf, cotton, milo, sesame, black eyed peas, soybeans and sunflowers. Mr. Graf is also involved in fertilizer sales, commercial spraying, commercial planting, custom harvesting, custom swathing, custom baling, oil and gas, and the selling and installation of vinyl fencing. He is the owner of M Ag, a family commercial spraying and fertilizer business and managing member of 4 MV Farms LLC, a family business involved in the transportation of raised products. Mr. Graf is Chairman of the Board for Corn Bible Academy, a Christian school located in Corn, Oklahoma. Mr. Graf formerly served as Chairman of the Senate at Tabor College where he earned a bachelor’s degree in computer science. Mr. Graf was elected to a three-year term expiring in 2022.
Dennie Jenkins	Director. Mr. Jenkins was first elected to the Board in 2013 and he currently serves as a member of the Risk/Technology Committee. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of registered Angus cattle and wheat/wheat seed, together with custom seed cleaning, custom farming and custom hay swathing-baling. He is Secretary-Treasurer of the OK&T Angus Breeders Association Board, an association to merchandise registered Angus cattle and serves as Secretary for the Ellis County Farm Bureau Board, a volunteer organization of farm and ranch families. Mr. Jenkins is Secretary-Treasurer of the Catesby, Oklahoma Volunteer Fire Department and a former member/Chairman on the Northwest Cattlemen’s Association Board, an organization to advance the beef industry. Mr. Jenkins was elected to a three-year term expiring in 2022.

Nathan Johnson	Director. Mr. Johnson was first elected to the Board in 2018 and he currently serves as a member of the Risk/Technology Committee. For the past five years he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of corn, milo, wheat and cow/calf. Mr. Johnson serves as a Cimarron County NRCS committee member, a U.S. Department of Agriculture Conservation District, and as President of the Cimarron County Stock Show Board, an organization to advance the local stock show. Mr. Johnson was elected to a three-year term expiring in 2021.
Tyler Kamp	Director. Mr. Kamp was first elected to the Board in 2014 and he currently serves as a member of the Audit Committee. For the past five years he has been involved in production agriculture in Northwestern Oklahoma with principal enterprises consisting of cow/calf, stocker cattle, wheat, sudan, milo, and silage together with custom hay swathing-baling. He is a former member and former Vice President of the Lavern Coop Board, a feed, fertilizer, and fuel cooperative and a former volunteer of the Slapout, Oklahoma Fire Department. Mr. Kamp is a member of the Harper County Stock Show Committee, an organization to advance the local stock show. Mr. Kamp was elected to a three-year term expiring in 2023.
Jimmie Purvine	Director. Mr. Purvine was first elected to the Board in 2005 and he currently serves as a member of the Audit Committee. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of wheat, milo, hay, soybeans, corn, silage, beans, cow/calf, and stocker cattle. He is President of Purvine Farms, Inc., a family farming business and a member of the Dewey County Conservation District Board, a State of Oklahoma organization to improve conservation practices. Mr. Purvine was elected to a three-year term expiring in 2023.
Alan Schenk	Director. Mr. Schenk joined the Board in October 2014 and has been an elected director since 2004, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Schenk currently serves as a member of the Audit Committee. For the past five years he has been engaged in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, stocker cattle, wheat, and alfalfa. He is the former President and current Vice-President of DO-BE Holstein Farms, Inc., a family farming corporation. Mr. Schenk was elected to a three-year term expiring in 2022.
Bobby Tarp	Appointed Director. Mr. Tarp joined the Board in October 2014 and has been an appointed director since 1993, having served on the Farm Credit of Central Oklahoma Board of Directors prior to the merger with Farm Credit of Western Oklahoma. Mr. Tarp currently serves as a member of the Compensation Committee. For the past five years he has been engaged in production agriculture in Central Oklahoma with principal enterprises consisting of cow/calf, stocker cattle, corn, wheat and hay. He is a former member of the Farm Service Agency County Committee, a U.S. Department of Agriculture farm community organization. Mr. Tarp was appointed to a three-year term expiring in 2023.
Troy White	Director. Mr. White became Compensation Committee Chairman in January 2021. Mr. White was first elected to the Board in 2017. For the past five years he has been involved in production agriculture in Western Oklahoma with principal enterprises consisting of stocker cattle, cow/calf and wheat. Mr. White serves as Woodward County Commissioner for District I and as President of Bull Creek Cattle Company, a family farming corporation. He is involved in commercial property ownership and management as managing member of Bull Creek Properties LLC, Managing member of Hillcrest Property Management LLC, and as President of Bull Creek Enterprises, Inc. Mr. White serves on the Trust Committee of the NW Oklahoma Solid Waste Disposal Authority, a landfill in Woodward County, Oklahoma. He is a past member/President of the Mooreland Public Schools Board of Education. Mr. White was elected to a three-year term expiring in 2023.

SENIOR OFFICERS OF AGPREFERENCE, ACA

Cecil H. Sheperson	President and Chief Executive Officer since March 1989. Mr. Sheperson retired effective December 31, 2020. Mr. Sheperson has been an employee of the Farm Credit System for the past 46 years with the last 41 years in senior management positions.
Diane Beach	Senior Vice President – Credit and Chief Credit Officer. Mrs. Beach has been an employee of the Farm Credit System for 26 years and has been in her current position since July 2019. She spent one year in credit support and the past 25 years in lending. Mrs. Beach is

partners with her husband in their family farming/ranching operation. Mrs. Beach also currently serves on the board of the Elmer Rural Volunteer Fire Department.

Raylon Shumaker	Senior Vice President – Administration and Appraisal. Mr. Shumaker has been an employee of the Farm Credit System for 28 years and has only been in his present position since May 2019. Mr. Shumaker's past 5 years business experience includes real estate appraisal, collateral evaluation, and appraisal review. Mr. Shumaker also has a part time farming and ranching operation.
Jana Turner	Senior Vice President – Finance and Chief Financial Officer. Ms. Turner has been an employee of the Farm Credit System for 10 years. Ms. Turner has over 36 years of financial experience. She is a Certified Public Accountant and has served as the CFO for the past five years. Ms. Turner also serves on two nonprofit organization boards.
John Kelln	Vice President – Agribusiness. Mr. Kelln has been an employee of the Farm Credit System for 35 years and has been in his present position for 17 years. His past 5 years of experience has been with senior management and agricultural lending. Mr. Kelln has a farming and ranching interest.

SENIOR OFFICERS OF FARM CREDIT OF WESTERN OKLAHOMA, ACA

The following senior officers from Farm Credit of Western Oklahoma, ACA are the senior officers for the merged association, Farm Credit of Western Oklahoma, ACA.

John Grunewald	President and Chief Executive Officer. Mr. Grunewald has served the Farm Credit System since June 2, 1980. Mr. Grunewald was appointed President and Chief Executive Officer effective July 2001. Prior to joining the Association, he was President and Chief Executive Officer of the Clinton Production Credit Association. Mr. Grunewald has served in a variety of positions including 28 years as Chief Executive Officer. He is a member of the Farm Bureau Foundation Board, an organization to promote Oklahoma agriculture and serves on the Board for the Oklahoma Agricultural Enhancement Program, an organization to develop agriculture programs in Oklahoma. Mr. Grunewald serves on the National FFA Sponsors Board, a board to support the National FFA and on the National FFA Foundation Board, a foundation for the benefit of the National FFA. Mr. Grunewald also serves on the AgVantis, Inc. Board, a company that develops and provides services to Farm Credit Associations. He is a past member of the National Young Farmers Education Association Board, an organization to promote young farmers and ranchers and a past member of the Oklahoma Grain & Stocker Producers Board, an organization to promote grain and stocker producers in Oklahoma. Mr. Grunewald is also a past member of the Panhandle Regional Economic Development Board, an organization to promote economic growth in the Oklahoma Panhandle and a past board member of the Oklahoma State Chamber.
Blake Byrd	Senior Executive Vice President and Chief Banking Officer. Mr. Byrd has served the Farm Credit System since June 6, 1988 and was appointed Senior Executive Vice President and Chief Banking Officer effective October 2014 following the merger with Farm Credit of Central Oklahoma. Prior to joining the Association, Mr. Byrd served in a range of management positions with Farm Credit of Central Oklahoma including Chief Executive Officer, Chief Financial Officer and Chief Credit Officer. In addition, Mr. Byrd is involved in residential rental property.
Mike McDonald	Executive Vice President and Chief Credit Officer. Mr. McDonald has served the Farm Credit System since January 31, 1996. He was appointed Chief Credit Officer effective December 2003. Mr. McDonald has served in a variety of roles with Farm Credit as well as the commercial banking industry. Mr. McDonald runs a part-time family farming-ranching operation. He is involved in residential rental properties and oil/gas activity.
Greg Livingston	Executive Vice President and Chief Lending Officer. Mr. Livingston has served the Farm Credit System since January 2, 1992. He was appointed Chief Lending Officer effective January 2008. Mr. Livingston has served in a variety of management positions including Chief Operating Officer and Vice President of Business Development-Marketing. Mr. Livingston operates a part-time family farming-ranching operation. He is a past member of the Dewey County FSA Board, a U.S. Department of Agriculture farm community organization, a past member of the Red Angus Association of America Finance Committee, an organization to advance the Red Angus industry, and a former board member/President of the Brumfield Cemetery Association Board, an organization for the preservation and

	upkeep of the local cemetery. Mr. Livingston serves on the Dewey County Fair Board, an advisory group for the county fair association and serves on the Seiling Round-Up Club Board, a local organization to promote the Seiling, Oklahoma rodeo. He serves on the Seiling Economic Development Authority board, an organization to advance economic development in Seiling and on the Seiling Education Foundation board, a foundation to promote and raise money for the education of Seiling students.
Jamey Mitchell	Vice President and Chief Financial Officer. Mr. Mitchell has served the Association since April 21, 2003. He was appointed Vice President and Chief Financial Officer effective May 2015. Mr. Mitchell has served in various roles including Loan Officer and Vice President-Branch Manager. Mr. Mitchell began his career with PricewaterhouseCoopers LLP as a staff accountant. He is a CPA and a member of the Oklahoma Society of Certified Public Accountants. Mr. Mitchell runs a part time family ranching operation and serves as Mayor of Texhoma, Oklahoma, a small community in the Oklahoma Panhandle. He also serves as Chairman of the Texhoma Housing Authority, an organization to promote housing in Texhoma.
Russell Strecker	Vice President and Chief Risk Officer. Mr. Strecker has served the Farm Credit System since June 14, 1993 and was appointed Vice President and Chief Risk Officer effective October 2014 following the merger with Farm Credit of Central Oklahoma. Prior to joining the Association, Mr. Strecker had served in a range of positions with Farm Credit of Central Oklahoma including Chief Credit Officer. He serves as Treasurer on the Caddo County 4-H Foundation Board, an organization promoting local youth and serves as Vice President on the Caddo County Sirloin Club Board, an organization supporting the Caddo County Free Fair. Mr. Strecker serves as Treasurer on the Caddo County Farmers Market Board, an organization promoting small-local agriculture in Caddo County, Oklahoma and serves as President on the Caddo County Cattlemen’s Association Board, an organization to advance the beef industry. He also serves on the Anadarko Municipal Airport Board, an organization to promote and advance the airport in Anadarko. Mr. Strecker operates a part time farming/ranching operation and owns rental property.
Sandy Jones	Vice President and Chief Administrative Officer. Ms. Jones has served the Farm Credit System since January 24, 1990 and was appointed Vice President of Corporate Operations and Human Resources Administrator following a merger with Farm Credit of Central Oklahoma in October 2014. In February 2020, Ms. Jones accepted the role of Vice President and Chief Administrative Officer. Ms. Jones has served in a variety of operational and management positions throughout her career including Operations Supervisor and Human Resources Administrator.
Jeff Wasson	Vice President and Chief Information Officer. Mr. Wasson has served Farm Credit of Western Oklahoma since August 1, 2013 and was appointed Vice President and Chief Information Officer in February, 2020. Prior to joining the Association full time, Mr. Wasson served the Farm Credit System as well as other area businesses in the capacity of contract IT support. Mr. Wasson is in partnership with his wife in a part-time family fabrication business.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $650 per day, $100 per phone call and were reimbursed mileage at the rate of $0.575 per mile while on official business. One of the Audit Committee Meetings was held in conjunction with a regular board meeting, so no additional compensation was paid to the directors for that meeting.

Additional information for each AgPreference director is provided below:

	Number of Days Served at		Compensation for		
Name	Board Meetings	Other Official Activities	Board Meetings and Other Official Duties	Audit Committee	Total Compensation Paid During 2020
Lonnie Olson	10.0	18.5	$ 24,825	$ 3,250	$ 28,075
Roger Fischer	10.0	24.0	22,350	3,250	25,600
Brandon Denton	5.0	8.5	7,475	1,300	8,775
John Huddleston	10.0	12.5	15,325	–	15,325
Robert Peeler	5.0	6.5	7,475	–	7,475
Robert Williams	9.5	21.5	19,900	3,250	23,150
Donnie Bowles	10.0	9.5	13,375	–	13,375
Joe Kelly	5.0	7.0	8,900	–	8,900
Brent York	5.0	4.0	6,050	–	6,050
Total Compensation			$ 125,675	$ 11,050	$ 136,725

Directors and senior 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 $15,676 in 2020, $57,623 in 2019 and $57,859 in 2018. There was no non-cash compensation paid to directors during 2020.

Information on the President and Chief Executive Officer (CEO), senior officers and other highly compensated individuals is provided below. All compensation information pertains only to AgPreference employees. Certain amounts in prior years have been restated to conform to the current year's presentation.

President and CEO	Year	Salary	Incentive Compensation	Perquisites	Other	Total
Cecil H. Sheperson	2020	$ 336,847	$ –	$ 51,903	$ 205,278	$ 594,028
Cecil H. Sheperson	2019	$ 233,767	$ –	$ 18,290	$ 333,551	$ 585,608
Cecil H. Sheperson	2018	$ 227,501	$ 32,310	$ 13,937	$ 2,180	$ 275,928

Aggregate Number of Senior Officers/Highly Compensated Individuals (excluding CEO)	Year	Salary	Incentive Compensation	Perquisites	Other	Total
5	2020	$ 649,481	$ 81,378	$ 25,130	$ 240,901	$ 996,890
5	2019	$ 567,866	$ –	$ 24,400	$ 960,224	$ 1,552,490
5	2018	$ 586,664	$ 99,099	$ 17,094	$ 27,646	$ 730,503

Disclosure of information on the total compensation paid during the last fiscal year to any senior officer, or to any other officer included in the aggregate, is available upon request.

Perquisites represents allowance for use of Association automobiles and life insurance premiums. Other includes employer match on defined contribution plan available to all employees, any changes in the value of pension benefits and a Christmas bonus. The change in value of the pension benefits is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year, disclosed in Note 10 of the Financial Statements. No tax reimbursements are made to senior officers/highly compensated individuals.

We believe the design and governance of our compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interest of our shareholders. The design of our senior officer compensation program supports our risk management goals and includes (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved, and (4) a long-term portion of variable pay to encourage retention and alignment with shareholder interests.

Senior officers are compensated with a mix of direct cash and long-term compensation as well as retirement plans generally available to all employees. Our Board of Directors determines the appropriate balance of short-term and long-term compensation while keeping in the mind their responsibilities to our shareholders. Base salary and short-term incentive are intended to be competitive with annual compensation for comparable position at peer organizations.

Senior officer base salaries reflect the officer's experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

In addition to base salary, the President, senior officers and all employees can earn additional compensation under an administrative incentive plan which is tied to the Association's overall business performance and the individual's rating. It is based on a fiscal year and is designed to motivate employees to exceed financial and credit quality performance targets approved by the Compensation Committee and Board of Directors. These targets include return on assets, credit quality, loan volume, and other key ratios. Short-term incentives are shown in the year paid during the first quarter.

The President participates in a long-term agreement. This agreement is based on fiscal year targets established by the Board of Directors. Targets include loan volume, core earnings, credit administration and credit quality. The compensation is included in the Salary column and is earned and paid in the same year.

The CEO and certain Senior Officers participate in the Ninth Farm Credit District Pension Plan (Pension Plan), which is a qualified defined benefit plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. Information on pension benefits attributable to the CEO, senior officers and other highly compensated individuals follows.

As of December 31, 2020 President and CEO	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Cecil H. Sheperson	Pension Plan	47	$ –	$ 150,281

Aggregate Number of Senior Officers/ Highly Compensated Individuals	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
1	Pension Plan	30	$ 882,444	$ –

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

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

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

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

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

BORROWER PRIVACY STATEMENT

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

RELATIONSHIP WITH COBANK, ACB (COBANK)

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

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

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

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS, RANCHERS AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

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

RELATIONSHIP WITH INDEPENDENT AUDITORS

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

FINANCIAL STATEMENTS

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

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2020 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 3120 North Main, Altus, Oklahoma 73521-1305, or may be contacted by calling (580) 482-3030 or (800) 727-3276. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.