

# Premier Farm Credit, ACA

## FIRST QUARTER REPORT 2010

*The Gold Standard in Ag Lending*

## **DISCLOSURE**

The shareholders' investment in Premier Farm Credit, ACA is materially affected by the financial condition and results of operations of U.S. AgBank, FCB, (AgBank). The 2009 U.S. AgBank Annual Report to Shareholders, the 2009 U.S. AgBank District Annual Report to Shareholders, the U.S. AgBank quarterly shareholders' reports and the U.S. AgBank District quarterly shareholders' reports are available free of charge by accessing AgBank's web site, [www.usagbank.com](http://www.usagbank.com), or may be obtained at no charge by contacting us at the Administrative Office, Premier Farm Credit, ACA, 202 Poplar Street, Sterling, CO or by calling 970-522-5295.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Dollars in Thousands, Except as Noted)  
(Unaudited)

The following commentary summarizes the principal aspects of the financial position and results of operations of Premier Farm Credit, ACA (the Association) for the quarter ended March 31, 2010, with comparisons to the prior year and prior quarter. You should read these comments with the accompanying financial statements and footnotes, along with other disclosures contained in this report and the 2009 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of the audit committee.

Annually, water supply is the primary concern for our service territory. While the snow pack in the South Platte basin is below average at 80% of normal, we feel we will have an adequate supply for the irrigation season. Our reservoirs are full as we head into spring and the river is flowing. We also rely on the rain to provide the needed moisture for our dryland crops and to take the pressure off of our irrigated supplies. We have adequate subsoil moisture at this time, but will need rain to see the dryland crops through to harvest.

We continue to monitor the legal issues that could have an impact on future water supplies. The Republican River Water Conservation District continues to seek resolution to deliver water to Kansas to ensure compliance with the compact. The issue is currently in arbitration; with a hearing scheduled for July and a decision due by the end of the 3<sup>rd</sup> quarter. The Association is closely monitoring the situation and remains optimistic that it will result in a favorable outcome for irrigated agriculture in Northeastern Colorado.

Grain prices are below last year's levels and cash flow margins are expected to be tight. With normal production, operations should attain some level of profitability. Loan volume has declined from year end as profits from the 2009 crop resulted in strong repayment on member operating loans. This reduction in volume is indicative of a healthy portfolio.

The livestock sector is benefitting from lower grain prices and futures above last year levels. Thus, feeding margins have improved and profits are attainable. The current forecast calls for an improved export market for beef which should aid in providing market opportunities for profit.

The general economy is showing signs of a moderate, protracted recovery. Locally, agriculture drives our economy. While agricultural revenues have declined compared to the previous three years, operations generally continued to reflect profitability. Limited portfolio stress appeared in 2009 and expectations are for additional stress in 2010, although it is not anticipated to be significant. Our portfolio remains strong as our members have bolstered their capital positions through strong profits over the past several years. The general economy has had an impact on our participation loan portfolio, as many of those businesses depend upon consumer purchasing power to provide their revenue streams. As the general economy rebounds, this stress will abate.

## **LOAN PORTFOLIO**

The Association is a party to a shared lending operation known as the Agribusiness Finance Group (AFG). The agreement includes the Association, Farm Credit Services of the Mountain Plains, ACA, Farm Credit of Southern Colorado, ACA and Farm Credit of New Mexico, ACA. These associations pool their resources to coordinate and enhance the marketing, originating and servicing of large, complex commercial and mortgage loans, as well as diversify risk.

Loans outstanding at March 31, 2010 totaled \$381,636, a decrease of \$9,733, or 2.49%, from loans of \$391,369 at December 31, 2009. The decrease was primarily the result of a decline in production agricultural revolving line of credit loans, due to seasonal borrowing being down.

## RESULTS OF OPERATIONS

Net interest income for the three months ended March 31, 2010 was \$2,340, up \$222 from the same period ended one year ago. Interest income increased \$96, but interest expense decreased \$126 when comparing the first quarter of 2010 to that of 2009. Net interest income increased as a result of both growth in loan volume and an increase in interest rate spread.

In an effort to strengthen the return on loanable funds, the Association is participating in the Earnings Stabilization Management Program (ESMP) offered by U.S. AgBank (the Bank). This program permits the Association to fix some of its loanable funds at an interest rate guaranteed to be paid on those fixed funds for a given time period. The Association has \$20.9 million invested in that program as of March 31, 2010.

Net income for the three months ended March 31, 2010 was \$2,239, an increase of \$1,428, or 176.08%, from the same period ended one year ago. This is primarily due to \$539 less in provision for loan losses, \$443 more in patronage from the Bank, a \$397 rebate from the Farm Credit System Insurance Corporation (FCSIC) and \$222 more in net interest income. Partially offsetting these items was the decrease in financially related services of \$95 and the \$81 decline in loan fees. Lower wheat prices have caused a decrease in the premiums on wheat insurance policies this year and there was a reduction in the number of pasture rainfall policies written. Our purchased loan activity has declined \$13,175 from 2009, and as a result, the Association has seen a significant drop in fee income from that portfolio.

During the first quarter of 2010, the Association was able to reduce the allowance for loan loss requirements on the purchased loan portfolio as a result of both payoffs and a reduction in the loss given default for several loans. This is in comparison to the first quarter of 2009 when there was the need to establish a specific reserve on a construction materials loan and the write off on stock taken as partial settlement of a cattle loan.

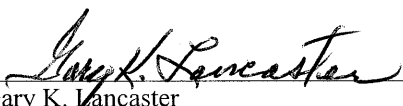
Beginning in 2009, patronage from AgBank was paid annually after the end of the year. During the first quarter of 2010, AgBank paid us \$657 in patronage based on AgBank's 2009 earnings. As a result, our patronage earnings from AgBank increased compared to the first quarter of 2009.

During the first quarter of 2010, we received our allocated portion of a rebate of \$397 distributed by FCSIC. As a result, our noninterest income increased compared to the first quarter of 2009.

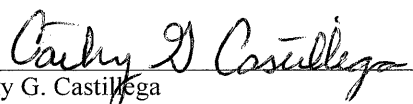
## CAPITAL RESOURCES

Our shareholders' equity at March 31, 2010 was \$97,356, an increase from \$95,125 at December 31, 2009. This increase is due to \$2,239 in net income and the Other Comprehensive Loss decrease of \$2 in the first quarter of 2010 from the amortization of pension gains included in the net periodic benefit cost. These were reduced by a \$10 decrease in stock.

The undersigned certify that they have reviewed this report, this report has been 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 his or her knowledge and belief.

  
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Gary K. Lancaster  
Chairman of Audit Committee  
May 6, 2010

  
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Rick Sanger  
President & CEO  
May 6, 2010

  
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Cathy G. Castilleja  
Chief Financial Officer  
May 6, 2010

**PREMIER FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF CONDITION**  
(Dollars in Thousands)

	March 31 2010	December 31 2009
	UNAUDITED	AUDITED
<b>ASSETS</b>		
Loans	\$ 381,636	\$ 391,369
Less allowance for loan losses	2,967	3,100
Net loans	378,669	388,269
Cash	991	6,806
Accrued interest receivable	5,981	6,688
Investment in U.S. AgBank, FCB	12,586	12,586
Premises and equipment, net	1,251	1,288
Prepaid benefit expense	677	755
Deferred tax asset	1,177	1,177
Other assets	688	467
<b>Total assets</b>	<b>\$ 402,020</b>	<b>\$ 418,036</b>
<b>LIABILITIES</b>		
Note payable to U.S. AgBank, FCB	\$ 293,245	\$ 306,033
Advance conditional payments	6,386	6,504
Accrued interest payable	3,841	6,722
Patronage distributions payable	-	1,000
Accrued benefits liability	192	198
Other liabilities	1,000	2,454
<b>Total liabilities</b>	<b>304,664</b>	<b>322,911</b>
<b>Commitments and contingencies</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Protected borrower stock	1	1
Capital stock	1,032	1,042
Unallocated retained earnings	96,362	94,123
Accumulated other comprehensive income/(loss)	(39)	(41)
<b>Total shareholders' equity</b>	<b>97,356</b>	<b>95,125</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 402,020</b>	<b>\$ 418,036</b>

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

**PREMIER FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF INCOME**  
(Dollars in Thousands)

UNAUDITED	For the three months ended March 31	
	2010	2009
<b>INTEREST INCOME</b>		
Loans	\$ 5,369	\$ 5,273
<b>Total interest income</b>	<b>5,369</b>	<b>5,273</b>
<b>INTEREST EXPENSE</b>		
Note payable to U.S. AgBank, FCB	3,025	3,142
Other	4	13
<b>Total interest expense</b>	<b>3,029</b>	<b>3,155</b>
Net interest income	2,340	2,118
(Loan loss reversal)/Provision for loan losses	(149)	390
Net interest income after (loan loss reversal)/Provision for loan losses	2,489	1,728
<b>NONINTEREST INCOME</b>		
Financially related services income	53	148
Loan fees	44	125
Patronage distribution from U.S. AgBank, FCB	657	214
Farm Credit Insurance Fund rebate	397	-
Other noninterest income	45	57
<b>Total noninterest income</b>	<b>1,196</b>	<b>544</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	858	810
Occupancy and equipment	107	104
Purchased services from AgVantis, Inc.	148	134
Farm Credit Insurance Fund premium	85	158
Supervisory and examination costs	38	35
Other noninterest expense	205	218
<b>Total noninterest expense</b>	<b>1,441</b>	<b>1,459</b>
Income before income taxes	2,244	813
Provision for income taxes	5	2
<b>Net income</b>	<b>\$ 2,239</b>	<b>\$ 811</b>

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

**PREMIER FARM CREDIT, ACA**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Dollars in Thousands)

UNAUDITED	Protected Stock	Capital Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
<b>Balance at December 31, 2008</b>	\$ 2	\$ 1,032	\$ 92,986	\$ (59)	\$ 93,961
Comprehensive income					
Net income			811		
Change in retirement obligation				3	
Total comprehensive income					814
Stock issued	-	26			26
Stock retired	(1)	(23)			(24)
<b>Balance at March 31, 2009</b>	<b>\$ 1</b>	<b>\$ 1,035</b>	<b>\$ 93,797</b>	<b>\$ (56)</b>	<b>\$ 94,777</b>
<b>Balance at December 31, 2009</b>	<b>\$ 1</b>	<b>\$ 1,042</b>	<b>\$ 94,123</b>	<b>\$ (41)</b>	<b>\$ 95,125</b>
Comprehensive income					
Net income			2,239		
Change in retirement obligation				2	
Total comprehensive income					2,241
Stock issued	-	25			25
Stock retired	-	(35)			(35)
Patronage distributions: Cash			-		-
<b>Balance at March 31, 2010</b>	<b>\$ 1</b>	<b>\$ 1,032</b>	<b>\$ 96,362</b>	<b>\$ (39)</b>	<b>\$ 97,356</b>

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

**NOTES TO FINANCIAL STATEMENTS**  
(Dollars in Thousands, Except as Noted)  
(Unaudited)

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

A description of the organization and operations of Premier Farm Credit, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2009, are contained in the 2009 Annual Report to Shareholders. These unaudited first quarter 2010 financial statements should be read in conjunction with the 2009 Annual Report to Shareholders.

Effective January 1, 2010, the Association adopted Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements and Disclosures," which is to improve disclosures about fair value measurements by increasing transparency in financial reporting. The guidance will provide for a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurements. The adoption of this guidance had no impact on the Association's financial condition and results of operations but resulted in additional disclosures.

In June 2009, the FASB issued guidance on "Accounting for Transfers of Financial Assets," which amends previous guidance by improving the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets.

This guidance is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities (as defined under previous accounting standards) should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. If the evaluation on the effective date results in consolidation, the reporting entity should apply the transition guidance provided in the pronouncement that requires consolidation. The Association reviewed their loan participation agreements to ensure that participations would meet the requirements for sales treatment and not be required to be consolidated. The impact of adoption on January 1, 2010 was immaterial to the Association's financial condition and results of operations.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations, and conform with generally accepted accounting principles and prevailing practices within the banking industry. The results for the three months ended March 31, 2010, are not necessarily indicative of the results to be expected for the year ended December 31, 2010.

## NOTE 2 - LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of the allowance for loan losses follows.

	March 31, 2010	March 31, 2009
Balance at beginning of year	\$3,100	\$2,171
(Loan loss reversal)/Provision for loan losses	(149)	390
Charge-offs	2	120
Recoveries	18	-0-
Balance at end of period	<b>\$2,967</b>	<b>\$2,441</b>

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.

	March 31, 2010	March 31, 2009
Impaired loans with related allowance	\$ 999	\$ 315
Impaired loans with no related allowance	1,335	2,062
Total impaired loans	<b>\$ 2,334</b>	<b>\$2,377</b>
Allowance on impaired loans	<b>\$ 674</b>	<b>\$ 290</b>

The following table summarizes impaired loan information.

	For the three months ended March 31, 2010	March 31, 2009
Average impaired loans	\$ 1,583	\$2,189
Interest income recognized on impaired loans	\$ 11	\$ 7

## NOTE 3 - FAIR VALUE MEASUREMENTS

FASB 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. See Note 2 to the 2009 Annual Report to Shareholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

March 31, 2010	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Assets held in nonqualified benefits trusts	\$169	\$ -0-	\$ -0-	\$169
Total assets	\$169	\$ -0-	\$ -0-	\$169

**December 31, 2009**

<b>Assets:</b>				
Assets held in nonqualified benefits trusts	\$ 88	\$ -0-	\$ -0-	\$ 88
Total assets	\$ 88	\$ -0-	\$ -0-	\$ 88

During the first quarter of 2010, the Association recorded no transfers in Levels 1, 2, or 3.

Assets and liabilities measured at fair value on a non-recurring basis at March 31, 2010 for each of the fair value hierarchy values are summarized below:

March 31, 2010	Fair Value Measurement Using			Total Fair Value	Total Gains/(Losses)
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
Loans	\$ -0-	\$ -0-	\$ 1,122	\$ 1,122	\$(659)
Other property owned	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
<b>December 31, 2009</b>					
<b>Assets:</b>					
Loans	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Other property owned	\$ -0-	\$ -0-	\$ 7	\$ 7	\$(103)

**Valuation Techniques**

As more fully discussed in Note 2 to the 2009 Annual Report to Shareholders, authoritative 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. The following presents a brief summary of the valuation techniques used for the Association's assets and liabilities.

*Assets Held in Non-Qualified Benefits Trusts*

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

*Loans*

For certain loans evaluated for impairment under FASB guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the 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.

*Other Property Owned*

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

**NOTE 4 - SUBSEQUENT EVENTS**

The Association has evaluated subsequent events through May 6, 2010, which is the date the financial statements were issued.