# 2020 ANNUAL REPORT
## AgCountry Farm Credit Services, ACA

AgCountry®
Farm Credit Services®

# **MISSION:** Serving agriculture and rural America.

**This past year has challenged everyone.** The COVID-19 pandemic has taken life as usual and turned it upside down. Regardless of the environment we find ourselves in, the business of agriculture doesn't stop. Crops need to get planted. Livestock and poultry need to get cared for. Food needs to be processed.

Human beings are social creatures and losing our ability to interact with others up close and personal as we have traditionally done meant we had to adapt. Office visits turned into more phone calls, text messages and emails. Outside of our priority service team members, the vast majority of our nearly 600 employees went from showing up to work at a local branch to signing on from home. The phrase "I think you're on mute" became commonplace in our daily interactions. Throughout it all we were able to fulfill our mission of service.

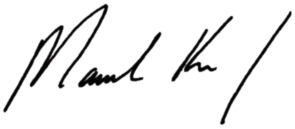
Our members are at the heart of everything we do. Helping those that we serve accomplish their personal financial goals is our passion. Between March 1st and July 31st, we processed over 3,200 interest rate conversions for a total savings of nearly $9.8 million for members. On top of that, AgCountry provided nearly 1,500 loans for about $32.1 million as of the end of August in the Paycheck Protection Program. These forgivable loans allowed farms to retain their workforce at a time when people across the country were losing their jobs. Both of these examples lead to more money staying with farmers, ranchers and rural residents across our territory.

Even with all the challenges, your cooperative was able to achieve great things in 2020. One of the largest perks of doing business with AgCountry is our cash patronage program. In 2019, the board set a goal of paying out a one percent (100 basis points) dividend going forward. We are thrilled to make good on that goal two years in a row. For all eligible 2020 business, that one percent dividend translates to around $64 million – a new record for our company. We all know that extra cash can go a long way for our members.

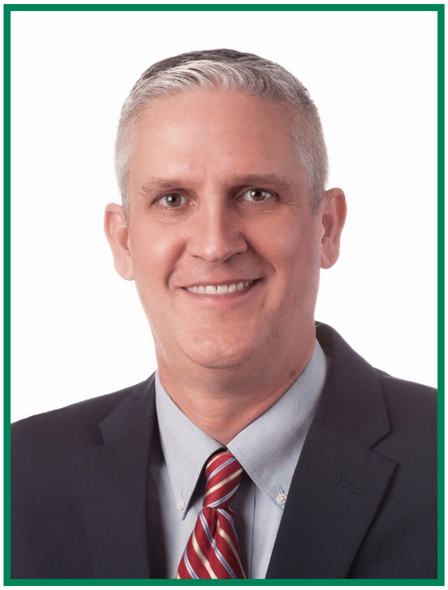
It is truly a pleasure to be able to work with you. Thank you for entrusting AgCountry with your business.

Sincerely,

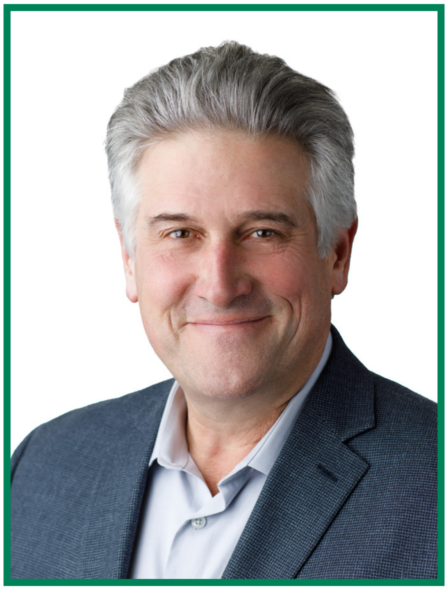
**Edward J. Hegland, Board Chair**
**AgCountry Farm Credit Services, ACA**



**Marcus L. Knisely**
**President and CEO**



**Edward J. Hegland**
**AgCountry Farm Credit Services**
**Board Chair**



**Marcus L. Knisely**
**President and**
**Chief Executive Officer**

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## AgCountry Farm Credit Services, ACA

# CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

*AgCountry Farm Credit Services, ACA*

*(dollars in thousands)*

| As of December 31 | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Statement of Condition Data** | | | | | |
| Loans | **$ 8,472,145** | $ 7,774,194 | $ 7,249,804 | $ 7,091,152 | $ 5,056,593 |
| Allowance for loan losses | **22,344** | 26,974 | 17,796 | 15,818 | 14,284 |
| Net loans held to maturity | **8,449,801** | 7,747,220 | 7,232,008 | 7,075,334 | 5,042,309 |
| Finance leases held for sale | **--** | -- | -- | -- | 70,356 |
| Net loans | **8,449,801** | 7,747,220 | 7,232,008 | 7,075,334 | 5,112,665 |
| Investment in AgriBank, FCB | **212,294** | 201,655 | 184,727 | 156,408 | 111,196 |
| Other assets | **207,427** | 232,650 | 224,451 | 211,139 | 238,609 |
| Total assets | **$ 8,869,522** | $ 8,181,525 | $ 7,641,186 | $ 7,442,881 | $ 5,462,470 |
| Obligations with maturities of one year or less | **$ 135,630** | $ 135,314 | $ 117,311 | $ 108,523 | $ 4,293,754 |
| Obligations with maturities greater than one year | **6,830,857** | 6,246,387 | 5,820,678 | 5,758,089 | -- |
| Total liabilities | **6,966,487** | 6,381,701 | 5,937,989 | 5,866,612 | 4,293,754 |
| Capital stock and participation certificates | **11,936** | 12,151 | 12,587 | 12,451 | 7,370 |
| Capital stock and participation certificates receivable | **(11,936)** | -- | -- | -- | -- |
| Additional paid-in capital | **304,385** | 304,385 | 304,385 | 304,385 | -- |
| Unallocated surplus | **1,608,312** | 1,488,700 | 1,390,854 | 1,263,212 | 1,161,346 |
| Accumulated other comprehensive loss | **(9,662)** | (5,412) | (4,629) | (3,779) | -- |
| Total members' equity | **1,903,035** | 1,799,824 | 1,703,197 | 1,576,269 | 1,168,716 |
| Total liabilities and members' equity | **$ 8,869,522** | $ 8,181,525 | $ 7,641,186 | $ 7,442,881 | $ 5,462,470 |

| For the year ended December 31 | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 206,603** | $ 194,300 | $ 197,240 | $ 165,129 | $ 131,193 |
| (Reversal of) provision for credit losses | **(2,754)** | 11,553 | 2,470 | 3,053 | 4,088 |
| Other expenses, net | **25,695** | 24,901 | 24,664 | 29,208 | 21,485 |
| Net income | **$ 183,662** | $ 157,846 | $ 170,106 | $ 132,868 | $ 105,620 |
| **Key Financial Ratios** | | | | | |
| **For the Year** | | | | | |
| Return on average assets | **2.2%** | 2.0% | 2.3% | 2.1% | 2.0% |
| Return on average members' equity | **10.0%** | 9.0% | 10.4% | 9.7% | 9.4% |
| Net interest income as a percentage of average earning assets | **2.5%** | 2.6% | 2.7% | 2.7% | 2.6% |
| Net charge-offs as a percentage of average loans | **0.0%** | 0.0% | 0.0% | 0.0% | 0.1% |
| **At Year End** | | | | | |
| Members' equity as a percentage of total assets | **21.5%** | 22.0% | 22.3% | 21.2% | 21.4% |
| Allowance for loan losses as a percentage of loans | **0.3%** | 0.4% | 0.2% | 0.2% | 0.3% |
| Capital ratios effective beginning January 1, 2017[1]: | | | | | |
| Common equity tier 1 ratio | **18.1%** | 18.6% | 18.2% | 17.2% | N/A |
| Tier 1 capital ratio | **18.1%** | 18.6% | 18.2% | 17.2% | N/A |
| Total capital ratio | **18.4%** | 18.9% | 18.5% | 17.5% | N/A |
| Permanent capital ratio | **18.1%** | 18.6% | 18.3% | 17.3% | N/A |
| Tier 1 leverage ratio | **20.4%** | 20.8% | 20.5% | 19.7% | N/A |
| Capital ratios effective prior to 2017: | | | | | |
| Permanent capital ratio | **N/A** | N/A | N/A | N/A | 17.2% |
| Total surplus ratio | **N/A** | N/A | N/A | N/A | 17.1% |
| Core surplus ratio | **N/A** | N/A | N/A | N/A | 17.1% |
| **Net Income Distributed** | | | | | |
| Patronage distributions payable to members[2] | **$ 64,050** | $ 60,000 | $ 42,500 | $ 34,530 | $ 21,000 |

[1]See Note 6 for an explanation of changes to capital ratios in the chart above.

[2]The patronage distribution to members accrued for the year ended December 31, 2020, is distributed in cash during the first quarter of 2021. The patronage distributions accrued for the years ended December 31, 2019, 2018, 2017, and 2016, were distributed in cash during the first quarter of the subsequent year. The patronage distribution payable in 2017 included $31.0 million payable to AgCountry patrons and $3.5 million payable to United FCS, ACA (United) patrons, by resolution of the United Board prior to merger with United on July 1, 2017.

The merger between AgCountry Farm Credit Services, ACA (AgCountry) and United was effective July 1, 2017. The effects of the merger with United are included in our financial position at December 31, 2020, 2019, 2018, and 2017. Results of operations and equity reflect the results of AgCountry prior to July 1, 2017, and the merged Association after July 1, 2017.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*AgCountry Farm Credit Services, ACA*

The following commentary reviews the consolidated financial condition and consolidated results of operations of AgCountry Farm Credit Services, ACA (the Association) and its subsidiaries, AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA and provides additional specific information. The accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements also contain important information about our financial condition and results of operations.

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2021, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 67 borrower-owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and governed by the rural customers the System serves.

AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). We are an Association in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System. The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of AgriBank financial reports, contact us at:

AgCountry Farm Credit Services, ACA
Post Office Box 6020
Fargo, ND 58108-6020
(701) 282-9494
www.agcountry.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.AgriBank.com
FinancialReporting@AgriBank.com

Our Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website no later than 40 days after the end of each calendar quarter. To request free copies of our Annual or Quarterly Reports, contact us as stated above.

## FORWARD-LOOKING INFORMATION

This Annual Report includes 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 "anticipate", "believe", "estimate", "may", "expect", "intend", "outlook", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties beyond our control. These risks and uncertainties include, but are not limited to:

- Political (including trade and environmental policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad
- Length and severity of an epidemic or pandemic
- Economic fluctuations in the agricultural, international, and farm-related business sectors
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry (including government support payments) and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses and fair value measurements
- Industry outlooks for agricultural conditions
- Changes in interest rate indices utilized in our lending

## COVID-19 PANDEMIC

Various segments of agribusiness, producer, and consumer loans have experienced interruptions in their cash-flows due to COVID-19. AgCountry's objective is to ensure sound credit administration without significant disruption to our members. AgCountry implemented streamlined servicing options for loans to members disrupted by the effects of COVID-19 through August 30, 2020. Members began utilizing the benefits of these programs on April 1, 2020. The programs streamlined a variety of options to members, including loan extensions, payment deferrals, and re-amortizations of interest over the remaining loan period with no maturity date change. Interest payments were deferred, then capitalized when principal and interest payments resumed. The programs also provided refinancing, bridge loans to fund payments, and interest only payment options. AgCountry's standard loan modification fees were waived as part of this program. Utilization of the enhanced programs was limited due to improvements in the supply chain, government support, and commodity price recovery. Members continue to have access to a full range of standard Association loan servicing options and should conditions change, we will reinstate our streamlined COVID-19 processes.

AgCountry does not anticipate a material increase in the number or volume of risk loans or a material impact to interest income, based on information available at this point in time. Loans continue to be monitored and evaluated for credit deterioration. If the borrower's financial condition deteriorates to the level viability becomes in question or the loan defaults to 90 days past due without execution of a borrower written plan, the loan will follow normal process and be moved to nonaccrual and/or evaluated for troubled debt restructuring.

AgCountry initiated business continuity responses to the pandemic to protect customers and employees from the effects of COVID-19. AgCountry continues to provide all products and services to customers without interruption and has not had any significant changes to internal controls over financial reporting due to remote work. AgCountry will continue to monitor the impact of the pandemic across our region and adjust as needed to provide safe work environments for customers and employees.

## AGRICULTURAL AND ECONOMIC CONDITIONS

The economy continues to recover from the pandemic, with a third quarter rebound in real U.S. Gross Domestic Product. The unemployment rate has improved from 14.8% in April 2020 to 6.7% as of January 8, 2021, but is almost twice the pre-pandemic rate of 3.5%. Vaccine distribution commenced in December, with a phased approach prioritizing front-line workers and at-risk populations.

The Federal Open Market Committee (FOMC) left the Fed Funds rate unchanged at 0.00% to 0.25% at its December 15-16 meeting, and expects to maintain the current target range until labor market conditions have reached levels consistent with FOMC's assessment of maximum employment and inflation is on track to moderately exceed 2.0% for some time. FOMC participants project those conditions will be met by the end of 2023. The combination of low interest rates, an estimated $2.4 trillion in fiscal policy measures in 2020, and proactive servicing have helped mitigate the economic impact of the pandemic on AgCountry customers. We pay close attention to global, national, and local events, and continue to evaluate the impact of those events on our customers and our cooperative as we fulfill our mission to serve agriculture and rural America.

AgCountry serves a broad range of commodities and agricultural industries across its territory. The summaries below provide a high-level summary of conditions and outlook for the primary commodities. See www.agcountry.com/resources for a more comprehensive discussion of current economic conditions and impact on commodities.

### Specific Production Conditions

**Corn:** Corn markets extended their rally with both basis and futures strengthening. United States Department of Agriculture (USDA) yield projections fell in both October and November, leaving the trade to look for further reductions in the January Final Production report released January 12, 2021. Exports have become the main demand driver with Chinese buyers stepping in repeatedly over the past four months.

**Soybeans:** Soybean markets consolidated mid-quarter before hitting new highs heading into year end. While the U.S. crop is set, demand remains strong to growing. In the background, the size of the South American crop remains uncertain with dry conditions persisting in some areas of Brazil.

**Wheat:** Wheat markets have been the laggard of grains but have generally held ground. Drought in the winter in the Southern Plains is not, by itself, of large concern, but the persistence and strength of the drought create moisture concerns for winter wheat acres.

**Cattle:** Cattle futures dipped early in the fourth quarter of 2020 before returning to the mid-year trading range. Carcass weights appear to have peaked in November with small but steady declines through year end. Feeder Cattle Placements have also begun to decline, about a month ahead of normal seasonal tendencies.

**Pork:** Lean hog futures traded in a $10 trading range through the fourth quarter of 2020 but western Corn Belt cash prices showed steady erosion. This is consistent with seasonal tendencies overall, with cash prices above both last year and the five-year average. The continued erosion of butt primal cuts through fourth quarter does not align with seasonal patterns. Exports remain strong.

**Dairy:** Class III milk futures struggled under plentiful production but remain well off the year's lows posted back in April. Spot milk deliveries are trading under contracted loads, further reinforcing the idea that the fluid milk market is somewhat saturated at the moment. U.S. butter stocks are 30% over the five-year average. Federal stimulus money may benefit the market as products are purchased for food programs.

**Dry Beans:** The dry bean market remained stable through the fourth quarter of 2020 for the major classes grown in Minnesota and North Dakota. Rising prices of competing commodities will provide competition for new crop acres, although contracts are typically not released until after the New Year.

**Sugar:** The USDA World Supply and Demand estimates reduced production every month of the fourth quarter, completely on the back of beet sugar production. However, estimates of 4.9 million short tons is still significantly above the tough 2019 season. Increases in imports (primarily from Mexico and "Other") added to supply while exports were reduced, resulting in a stocks-to-use ratio nearly the same as 2019. World sugar futures are up nearly 60% from the lows posted at the end of April.

**Ethanol:** Fourth quarter has shown dramatic improvement over second quarter ethanol margins of -$0.30/gal. The market itself would benefit from additional demand. However, fundamentals appear much closer to equilibrium than we have been for some time.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $8.5 billion at December 31, 2020, an increase of $698.0 million from December 31, 2019.

**Components of Loans**

| (in thousands)<br>As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Accrual loans: | | | |
| Real estate mortgage | **$ 3,651,393** | $ 3,251,734 | $ 3,069,452 |
| Production and intermediate-term | **2,053,150** | 2,126,836 | 2,043,317 |
| Agribusiness | **2,029,271** | 1,779,826 | 1,585,427 |
| Other | **723,982** | 593,909 | 522,118 |
| Nonaccrual loans | **14,349** | 21,889 | 29,490 |
| Total loans | **$ 8,472,145** | $ 7,774,194 | $ 7,249,804 |

The other category is primarily composed of communication, energy, agricultural export finance, and water and wastewater related loans.

The increase in total loans from December 31, 2019, was primarily due to growth in our real estate mortgage and agribusiness portfolios.

We have sold to AgriBank participation interests in certain loans as part of pool programs. The total outstanding participation interests in these programs were $435.2 million, $460.5 million, and $492.0 million at December 31, 2020, 2019, and 2018, respectively.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act). Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the U.S. Small Business Administration (SBA). We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the FCA Regulations are able to borrow from our Association under this program. The PPP provided for loan forgiveness under limited circumstances. AgCountry has successfully processed $32.1 million in PPP loans for customers with primarily production and intermediate-term type loans. Loan payments have been deferred as provided for in the program, and the forgiveness process became available in August 2020. We are accepting applications for forgiveness and submitting to SBA as applications are complete. $12.1 million has been forgiven as of December 31, 2020. At the end of December 2020, additional legislation was passed to extend the PPP by approximately $280.0 billion, which modified and expanded eligibility to borrowers and will be available through March 31, 2021. AgCountry is accepting and processing borrower applications under this expanded program.

Typically, our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. 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.

We offer variable, fixed, indexed, and adjustable interest rate loans to our borrowers. We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings.

### Portfolio Distribution

We are chartered to serve thirty-five counties in Minnesota, eighteen counties in North Dakota, and twelve counties in Wisconsin. Based upon volume, approximately 34.2%, 31.2%, and 7.3% of our loans are to borrowers in the states of Minnesota, North Dakota, and Wisconsin, respectively as of December 31, 2020. We purchase the remainder of our portfolio outside of Minnesota, North Dakota, and Wisconsin to support rural America and to diversify our portfolio risk.

| Agricultural Concentrations | | | |
|---|---|---|---|
| As of December 31 | **2020** | 2019 | 2018 |
| Cash grains | **45.9%** | 46.5% | 47.2% |
| Sugar beets | **9.2%** | 10.0% | 10.6% |
| Dairy | **7.4%** | 7.4% | 6.5% |
| Livestock | **7.0%** | 6.9% | 7.0% |
| Fertilizer and farm supply | **6.1%** | 5.4% | 5.9% |
| Rural electric and utilities | **3.9%** | 3.7% | 3.4% |
| Forestry | **3.8%** | 3.6% | 3.1% |
| Food and beverage | **3.1%** | 3.9% | 3.5% |
| Ethanol | **2.6%** | 2.9% | 3.2% |
| Telecom | **2.1%** | 1.8% | 1.9% |
| Poultry and eggs | **1.1%** | 1.1% | 1.1% |
| Other | **7.8%** | 6.8% | 6.6% |
| Total | **100.0%** | 100.0% | 100.0% |

Commodities are based on the borrower's primary intended commodity at the time of loan origination and may change due to borrower business decisions as a result of changes in weather, prices, input costs, and other circumstances.

## Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2019. Adversely classified loans decreased to 1.6% of the portfolio at December 31, 2020, from 2.7% of the portfolio at December 31, 2019. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, Federal Agricultural Mortgage Corporation (Farmer Mac) and other government agency guarantee programs are used to reduce the risk of loss. At December 31, 2020, $352.4 million of our loans were, to some level, guaranteed under these government programs.

## Risk Assets

**Components of Risk Assets**

(dollars in thousands)

| As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Loans: | | | |
| Nonaccrual | **$ 14,349** | $ 21,889 | $ 29,490 |
| Accruing restructured | **1,982** | 462 | 503 |
| Accruing loans 90 days or more past due | **2,097** | 512 | 6,661 |
| Total risk loans | **18,428** | 22,863 | 36,654 |
| Other property owned | **--** | 140 | 274 |
| Total risk assets | **$ 18,428** | $ 23,003 | $ 36,928 |
| Total risk loans as a percentage of total loans | **0.2%** | 0.3% | 0.5% |
| Nonaccrual loans as a percentage of total loans | **0.2%** | 0.3% | 0.4% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **34.3%** | 68.6% | 70.4% |
| Total delinquencies as a percentage of total loans | **0.2%** | 0.3% | 0.3% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have decreased from December 31, 2019, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

In addition to regular payoff transactions, AgCountry had the opportunity to exit two nonaccrual credits during the year, resulting in a decrease in nonaccrual volume from 2019. Nonaccrual loans remained at an acceptable level at December 31, 2020, 2019, and 2018.

The increase in accruing restructured loans was primarily due to one loan in the production and intermediate-term portfolio.

The increase in accruing loans 90 days or more past due was primarily due to two customers in our real estate mortgage portfolio. Our accounting procedure requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

## Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans inherent in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

**Allowance Coverage Ratios**

| As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Allowance as a percentage of: | | | |
| Loans | **0.3%** | 0.4% | 0.2% |
| Nonaccrual loans | **155.7%** | 123.2% | 60.3% |
| Total risk loans | **121.3%** | 118.0% | 48.6% |
| Net charge-offs as a percentage of average loans | **0.0%** | 0.0% | 0.0% |
| Adverse assets to capital and allowance for loan losses | **7.0%** | 11.7% | 11.1% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2020.

Additional loan information is included in Notes 3, 9, 10, and 11 to the accompanying Consolidated Financial Statements.

## RESULTS OF OPERATIONS

**Profitability Information**

(dollars in thousands)

| For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Net income | **$ 183,662** | $ 157,846 | $ 170,106 |
| Return on average assets | **2.2%** | 2.0% | 2.3% |
| Return on average members' equity | **10.0%** | 9.0% | 10.4% |

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio section
- Changes in capital discussed in the Capital Adequacy section

**Changes in Significant Components of Net Income**

| | For the year ended December 31 | | | Increase (decrease) in net income | |
|---|---|---|---|---|---|
| (in thousands) | **2020** | 2019 | 2018 | **2020 vs 2019** | 2019 vs 2018 |
| Net interest income | **$ 206,603** | $ 194,300 | $ 197,240 | **$ 12,303** | $ (2,940) |
| (Reversal of) provision for credit losses | **(2,754)** | 11,553 | 2,470 | **14,307** | (9,083) |
| Non-interest income | **96,191** | 89,662 | 88,827 | **6,529** | 835 |
| Non-interest expense | **121,762** | 115,904 | 115,256 | **(5,858)** | (648) |
| Provision for (benefit from) income taxes | **124** | (1,341) | (1,765) | **(1,465)** | (424) |
| Net income | **$ 183,662** | $ 157,846 | $ 170,106 | **$ 25,816** | $ (12,260) |

## Net Interest Income

**Changes in Net Interest Income**

(in thousands)

| For the year ended December 31 | **2020 vs 2019** | 2019 vs 2018 |
|---|---|---|
| Changes in volume | **$ 17,540** | $ 8,269 |
| Changes in interest rates | **(6,416)** | (10,286) |
| Changes in nonaccrual income and other | **1,179** | (923) |
| Net change | **$ 12,303** | $ (2,940) |

Net interest income included income on nonaccrual loans that totaled $2.8 million, $1.6 million, and $2.5 million in 2020, 2019, and 2018, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered. See the Regulatory Matters section for discussion regarding revised criteria to reinstate nonaccrual loans to accrual status.

Net interest margin (net interest income as a percentage of average earning assets) was 2.5%, 2.6%, and 2.7% in 2020, 2019, and 2018, respectively. Our net interest margin is sensitive to interest rate changes and competition.

### (Reversal of) Provision for Credit Losses

The change in provision for credit losses is primarily due to an opportunity to exit two nonaccrual credits during the year in addition to various payoff transactions. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

### Non-Interest Income

**Patronage Income:** We may receive patronage from AgriBank and other Farm Credit Institutions. Patronage distributions from AgriBank and other Farm Credit Institutions are declared solely at the discretion of each institution's Board of Directors.

**Patronage Income**

(in thousands)

| For the year ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Patronage from AgriBank | **$ 50,019** | $ 45,206 | $ 40,391 |
| Other patronage | **569** | 36 | 277 |
| Total patronage income | **$ 50,588** | $ 45,242 | $ 40,668 |
| Form of patronage distributions: | | | |
| Cash | **$ 50,588** | $ 29,197 | $ 40,668 |
| Stock | **--** | 16,045 | -- |
| Total patronage income | **$ 50,588** | $ 45,242 | $ 40,668 |

Patronage from AgriBank primarily includes wholesale patronage and pool program patronage. All patronage payments are at the sole discretion of the AgriBank Board of Directors and are determined based on actual financial results, projections, and long-term capital goals.

### Non-Interest Expense

**Components of Non-interest Expense**

(dollars in thousands)

| For the year ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Salaries and employee benefits | **$ 74,329** | $ 68,804 | $ 67,289 |
| Other operating expense: | | | |
| Purchased and vendor services | **15,209** | 14,470 | 16,824 |
| Communications | **1,375** | 1,201 | 1,229 |
| Occupancy and equipment | **11,393** | 10,957 | 7,838 |
| Advertising and promotion | **2,688** | 2,592 | 2,312 |
| Examination | **2,426** | 2,407 | 2,306 |
| Farm Credit System insurance | **6,328** | 5,495 | 5,339 |
| Other | **7,463** | 9,852 | 10,850 |
| Other non-interest expense | **551** | 126 | 1,269 |
| Total non-interest expense | **$ 121,762** | $ 115,904 | $ 115,256 |
| Operating rate | **1.5%** | 1.6% | 1.6% |

The increases in operating expenses were primarily driven by the addition of staff in selected areas, and annual increases in salaries and employee benefits.

### Provision for (Benefit from) Income Taxes

The variance in provision for (benefit from) income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2020, 2019, and 2018. Additional discussion is included in Note 7 to the accompanying Consolidated Financial Statements.

## FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2020, we had $3.2 billion available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

**Note Payable Information**

| (dollars in thousands)<br>For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Average balance | **$ 6,576,819** | $ 5,955,004 | $ 5,792,936 |
| Average interest rate | **1.6%** | 2.7% | 2.4% |

Our average cost of funds is variable and may fluctuate based on the current interest rate environment.

In 2017, the United Kingdom's Financial Conduct Authority, which regulates the London Inter-bank Offer Rate (LIBOR), announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is expected, but not certain, that LIBOR will no longer be quoted after 2021. In late 2020, ICE Benchmark Administration (IBA), the administrator of LIBOR, announced its intention to publish major USD LIBOR indexes through June 30, 2023. The FCA issued a response and guidance that the IBA proposal is not in any way intended to slow down the transition.

The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio, which significantly reduces our market interest rate risk. However, we maintain some exposure to interest rates, including LIBOR, primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. At this time, it remains uncertain when LIBOR will cease to be available or if the Secured Overnight Financing Rate (SOFR) will become the benchmark to replace LIBOR.

The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across System entities. In coordination with this group, we have developed a comprehensive project plan to address the issues surrounding a transition away from LIBOR. This plan is consistent with regulatory guidance from the FCA, and it incorporates actions to address risk identification and reporting, mitigation strategies, development or adoption of products utilizing alternative reference rates, operational and system impacts, a process for monitoring regulatory and industry developments, as well as communication to stakeholders. While many factors can impact our net interest income, we do not expect a significant impact due to the LIBOR transition at this time.

We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac to help manage credit risk. If a loan covered by the agreement goes into default, subject to certain conditions, we have the right to sell the loan to Farmer Mac. This agreement remains in place until the loan is paid in full. The guaranteed principal of loans subject to the purchase agreement was $111.9 million, $117.4 million, and $116.5 million at December 31, 2020, 2019, and 2018, respectively. We paid Farmer Mac commitment fees totaling $0.4 million in 2020, 2019, and 2018. These amounts are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income. As of December 31, 2020, no loans have been sold to Farmer Mac under this agreement.

## CAPITAL ADEQUACY

Total members' equity was $1.9 billion, $1.8 billion, and $1.7 billion at December 31, 2020, 2019, and 2018, respectively. Total members' equity increased $103.2 million from December 31, 2019, primarily due to net income for the year partially offset by patronage distribution accruals**.**

The FCA Regulations require us to maintain minimums for our common equity tier 1 (CET1), tier 1 capital, total capital, and permanent capital risk-based capital ratios. In addition, the FCA requires us to maintain minimums for our non-risk-adjusted ratios of tier 1 leverage and unallocated retained earnings and equivalents leverage.

**Regulatory Capital Requirements and Ratios**

| As of December 31 | **2020** | 2019 | 2018 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|---|
| Risk-adjusted: | | | | | | |
| CET1 ratio | **18.1%** | 18.6% | 18.2% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **18.1%** | 18.6% | 18.2% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **18.4%** | 18.9% | 18.5% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **18.1%** | 18.6% | 18.3% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 leverage ratio | **20.4%** | 20.8% | 20.5% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **21.7%** | 21.8% | 21.3% | 1.5% | N/A | 1.5% |

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 6 to the accompanying Consolidated Financial Statements and off-balance sheet commitments are discussed in Note 10 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum CET1 target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum CET1 target range is 14% to 16%, as defined in our 2021 capital plan.

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. We do not foresee any events that would result in this prohibition in 2021.

## RELATIONSHIP WITH AGRIBANK

### Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 5 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

- A marginal cost of debt component
- A spread component, which includes cost of servicing, cost of liquidity, and bank profit
- A risk premium component, if applicable

In the periods presented, we were not subject to the risk premium component. Certain factors may impact our cost of funds, which primarily include market interest rate changes impacting marginal cost of debt as well as changes to pricing methodologies impacting the spread components described above.

The marginal cost of debt approach simulates matching the cost of underlying debt with similar terms as the anticipated terms of our loans to borrowers. This approach substantially protects us from market interest rate risk. We may occasionally engage in funding strategies that result in limited interest rate risk with approval by AgriBank's Asset/Liability Committee.

### Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. As of December 31, 2020, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

We are also required to hold additional investment in AgriBank based on contractual agreements under pool programs.

As an AgDirect, LLP partnering Association, we are required to purchase stock in AgDirect, which purchases an equivalent amount of stock in AgriBank. Specifically, the AgDirect trade credit financing program is required to own stock in AgriBank in the amount of 6.0% of the AgDirect program's outstanding participation loan balance at quarter end plus 6.0% of the expected balance to be originated during the following quarter.

### Patronage

AgriBank's capital plan is intended to provide for adequate capital at AgriBank under capital regulations as well as to create a path to long-term capital optimization within the AgriBank District. The plan optimizes capital at AgriBank; distributing available AgriBank earnings in the form of patronage, either cash or AgriBank stock, which is at the sole discretion of the AgriBank Board of Directors. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of unallocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

### Purchased Services

As of December 31, 2020, we purchased certain business services from AgriBank. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

### Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment.

## OTHER RELATIONSHIPS AND PROGRAMS

### Relationships with Other Farm Credit Institutions

**AgCountry CFG:** We participate in AgCountry CFG, an alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. AgCountry CFG is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the AgCountry CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $2.3 billion, $2.0 billion, and $1.7 billion of AgCountry CFG volume at December 31, 2020, 2019, and 2018, respectively. We also had $1.1 billion of available commitment on AgCountry CFG loans at December 31, 2020.

As the facilitating Association for AgCountry CFG, we assess the other CFG participants a facilitation fee for various support functions. This includes human resources, accounting, payroll, reporting, and other finance functions. We also serve as the primary originating Association for AgCountry CFG participation purchases and sales.

**ProPartners Financial:** We participate in ProPartners Financial (ProPartners) with certain Farm Credit System institutions to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. Through November 30, 2018, the income, expense, and credit risks were allocated based on each association's participation interest of the ProPartners volume. Each association's allocation was established based on mutual agreement of the owners. On December 1, 2018, we sold to AgriBank our entire interest in the loans associated with ProPartners. As part of this program we receive patronage income at the sole discretion of the AgriBank Board of Directors. AgriBank purchases a 100% participation interest in all new ProPartners loans.

**Federal Agricultural Mortgage Corporation:** We have entered into a Standby Commitment to Purchase Agreement with Farmer Mac. This agreement allows us to sell loans identified under the agreement to Farmer Mac. Refer to the Funding and Liquidity section for further discussion of this agreement.

**Farm Credit Leasing Services Corporation:** We have an agreement with Farm Credit Leasing Services Corporation (FCL), a System service corporation, which specializes in leasing products and provides industry expertise. Leases are originated and serviced by FCL and we purchase a participation interest in the cash flows of the transaction. This arrangement provides our members with a broad selection of product offerings and enhanced lease expertise.

**CoBank, ACB:** We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing and selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $1.5 million, $1.4 million, and $1.5 million at December 31, 2020, 2019, and 2018, respectively.

**SunStream Business Services:** We have a relationship with SunStream, which involves purchasing tax reporting and insurance services. SunStream was a division of AgriBank prior to April 1, 2020, when SunStream formed a separate System service corporation. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

**Farm Credit Foundations:** We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource, benefit, payroll, and workforce management services. As of December 31, 2020, 2019, and 2018, our investment in Foundations was $0.1 million. Additional related party information is included in Note 9 to the accompanying Consolidated Financial Statements.

**Farm Credit Financial Partners, Inc.:** Our customer relationship, reporting, internet, network security, loan accounting, loan origination, and general ledger systems are provided by Farm Credit Financial Partners, Inc. (FPI), a System service corporation, which provides technology and other operational services to its owners. As part of this relationship, we had an equity investment in FPI of $3.5 million, $3.4 million, and $4.0 million as of December 31, 2020, 2019, and 2018, respectively.

**Rural Business Investment Company:** We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Refer to Note 10 to the accompanying Consolidated Financial Statements for further discussion.

### Unincorporated Business Entities (UBEs)

In certain circumstances, we may establish separate entities to acquire and manage complex collateral, primarily for legal liability purposes.

**AgDirect, LLP:** We participate in the AgDirect trade credit financing program, which includes origination and refinancing of agriculture equipment loans through independent equipment dealers. The program is facilitated by another AgriBank District association through a limited liability partnership in which we are a partial owner. Our investment in AgDirect, LLP, was $4.0 million and $0.5 million at December 31, 2020, and 2019, respectively.

### Programs

We are involved in a number of programs designed to improve our credit delivery, related services, and marketplace presence.

**AgDirect:** We participate in the AgDirect trade credit financing program. Refer to the UBEs section for further discussion on this program.

**Farm Cash Management:** We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

## REGULATORY MATTERS

### Criteria to Reinstate Nonaccrual Loans

The FCA Board approved a final rule to revise how high-risk loans for System banks and associations are classified by clarifying the factors used to place loans in nonaccrual status and revising reinstatement criteria, which became effective October 21, 2020. The stated objectives of the revised requirements are to:

- Enhance the usefulness of high-risk loan categories
- Replace the subjective measure of “reasonable doubt” used for reinstating loans to accrual status with a measurable standard
- Improve the timely recognition of a change in a loan’s status
- Update existing terminology and make other grammatical changes

### Investment Securities Eligibility

The FCA Board approved a final rule to amend the investment eligibility regulation. The final rule became effective December 4, 2020, and allows associations to purchase portions of loans in the secondary market that are fully and unconditionally guaranteed by the USDA. We currently do not have investment securities on our Consolidated Statements of Condition.

For both final rules we have updated our policies, procedures, and other documentation to ensure compliance with the amended regulations. The amendments did not have a material impact to our financial statements.

# REPORT OF MANAGEMENT

*AgCountry Farm Credit Services, ACA*

We prepare the Consolidated Financial Statements of AgCountry Farm Credit Services, ACA (the Association) and are 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 accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. In addition, our independent auditors have audited our internal control over financial reporting as of December 31, 2020. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report, which has been prepared in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Edward J. Hegland
Board Chair
AgCountry Farm Credit Services, ACA

Marcus L. Knisely
President and Chief Executive Officer
AgCountry Farm Credit Services, ACA

Rebecca A. Thibert
Chief Financial Officer
AgCountry Farm Credit Services, ACA

March 1, 2021

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

*AgCountry Farm Credit Services, ACA*

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2020. In making the assessment, management used the 2013 framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria.

The Association's internal control over financial reporting as of December 31, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the Association's internal control over financial reporting as of December 31, 2020.

Marcus L. Knisely
President and Chief Executive Officer
AgCountry Farm Credit Services, ACA

Rebecca A. Thibert
Chief Financial Officer
AgCountry Farm Credit Services, ACA

March 1, 2021

# REPORT OF AUDIT COMMITTEE

*AgCountry Farm Credit Services, ACA*

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of a subset of the Board of Directors of AgCountry Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. Additionally, management is responsible for the design and operating effectiveness of internal control over financial reporting for the Consolidated Financial Statements. PwC is responsible for expressing opinions on the Consolidated Financial Statements and internal control over financial reporting based on their integrated audits which are performed in accordance with generally accepted auditing standards in the United States of America. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited Consolidated Financial Statements for the year ended December 31, 2020, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards AU-C 260, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on any significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC any other matters and received any assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited Consolidated Financial Statements in the Annual Report for the year ended December 31, 2020.

Suzanne Allen
Chairperson of the Audit Committee
AgCountry Farm Credit Services, ACA

Members of the Audit Committee:
Michael Long, Vice Chair
Leif Aakre
Kurt Elliott
Scott Gerbig
Lynn Pietig
Curtis Trost

March 1, 2021

**Report of Independent Auditors**

To the Board of Directors of AgCountry Farm Credit Services, ACA,

We have audited the accompanying consolidated financial statements of AgCountry Farm Credit Services, ACA and its subsidiaries (the "Company"), 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 members' equity and of cash flows for the years then ended. We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Management's Responsibility for the Consolidated Financial Statements and Internal Control over Financial Reporting***

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 effective internal control over financial reporting relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control over Financial Reporting.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements and an opinion on the Company's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements 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 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 company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements 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 financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on our judgment, including assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Definition and Inherent Limitations of Internal Control Over Financial Reporting***

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

***Opinions***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgCountry Farm Credit Services, 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 conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

PricewaterhouseCoopers LLP

March 1, 2021

*PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402*
*T: (612) 596 6000, www.pwc.com/us*

# CONSOLIDATED STATEMENTS OF CONDITION

*AgCountry Farm Credit Services, ACA*

*(in thousands)*

| As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| Loans | **$ 8,472,145** | $ 7,774,194 | $ 7,249,804 |
| Allowance for loan losses | **22,344** | 26,974 | 17,796 |
| Net loans | **8,449,801** | 7,747,220 | 7,232,008 |
| Investment in AgriBank, FCB | **212,294** | 201,655 | 184,727 |
| Accrued interest receivable | **80,693** | 98,755 | 92,671 |
| Premises and equipment, net | **35,937** | 37,816 | 42,612 |
| Assets held for lease, net | **--** | -- | 1,815 |
| Deferred tax assets, net | **127** | 1,117 | 82 |
| Other assets | **90,670** | 94,962 | 87,271 |
| Total assets | **$ 8,869,522** | $ 8,181,525 | $ 7,641,186 |
| **LIABILITIES** | | | |
| Note payable to AgriBank, FCB | **$ 6,830,857** | $ 6,246,387 | $ 5,820,678 |
| Accrued interest payable | **19,582** | 37,928 | 38,304 |
| Patronage distribution payable | **64,050** | 60,000 | 42,500 |
| Other liabilities | **51,998** | 37,386 | 36,507 |
| Total liabilities | **6,966,487** | 6,381,701 | 5,937,989 |
| Contingencies and commitments (Note 10) | | | |
| **MEMBERS' EQUITY** | | | |
| Capital stock and participation certificates | **11,936** | 12,151 | 12,587 |
| Capital stock and participation certificates receivable | **(11,936)** | -- | -- |
| Additional paid-in capital | **304,385** | 304,385 | 304,385 |
| Unallocated surplus | **1,608,312** | 1,488,700 | 1,390,854 |
| Accumulated other comprehensive loss | **(9,662)** | (5,412) | (4,629) |
| Total members' equity | **1,903,035** | 1,799,824 | 1,703,197 |
| Total liabilities and members' equity | **$ 8,869,522** | $ 8,181,525 | $ 7,641,186 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*AgCountry Farm Credit Services, ACA*

*(in thousands)*

| For the year ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Interest income** | **$ 311,270** | $ 353,263 | $ 335,792 |
| **Interest expense** | **104,667** | 158,963 | 138,552 |
| Net interest income | **206,603** | 194,300 | 197,240 |
| **(Reversal of) provision for credit losses** | **(2,754)** | 11,553 | 2,470 |
| Net interest income after (reversal of) provision for credit losses | **209,357** | 182,747 | 194,770 |
| **Non-interest income** | | | |
| Patronage income | **50,588** | 45,242 | 40,668 |
| Financially related services income | **31,815** | 31,924 | 32,069 |
| Fee income | **10,902** | 7,368 | 7,985 |
| Allocated Insurance Reserve Accounts distribution | **1,554** | 1,679 | 4,094 |
| Other non-interest income | **1,332** | 3,449 | 4,011 |
| Total non-interest income | **96,191** | 89,662 | 88,827 |
| **Non-interest expense** | | | |
| Salaries and employee benefits | **74,329** | 68,804 | 67,289 |
| Other operating expense | **46,882** | 46,974 | 46,698 |
| Other non-interest expense | **551** | 126 | 1,269 |
| Total non-interest expense | **121,762** | 115,904 | 115,256 |
| Income before income taxes | **183,786** | 156,505 | 168,341 |
| **Provision for (benefit from) income taxes** | **124** | (1,341) | (1,765) |
| Net income | **$ 183,662** | $ 157,846 | $ 170,106 |
| **Other comprehensive loss** | | | |
| Employee benefit plans activity | **$ (4,250)** | $ (783) | $ (850) |
| Total other comprehensive loss | **(4,250)** | (783) | (850) |
| Comprehensive income | **$ 179,412** | $ 157,063 | $ 169,256 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*AgCountry Farm Credit Services, ACA*

*(in thousands)*

| | Capital Stock and Participation Certificates and Receivable, Net | Additional Paid-in Capital | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|---|
| Balance as of December 31, 2017 | $ 12,451 | $ 304,385 | $ 1,263,212 | $ (3,779) | $ 1,576,269 |
| Net income | -- | -- | 170,106 | -- | 170,106 |
| Other comprehensive loss | -- | -- | -- | (850) | (850) |
| Unallocated surplus designated for patronage distributions | -- | -- | (42,464) | -- | (42,464) |
| Capital stock and participation certificates issued | 780 | -- | -- | -- | 780 |
| Capital stock and participation certificates retired | (644) | -- | -- | -- | (644) |
| Balance as of December 31, 2018 | 12,587 | 304,385 | 1,390,854 | (4,629) | 1,703,197 |
| Net income | -- | -- | 157,846 | -- | 157,846 |
| Other comprehensive loss | -- | -- | -- | (783) | (783) |
| Unallocated surplus designated for patronage distributions | -- | -- | (60,000) | -- | (60,000) |
| Capital stock and participation certificates issued | 692 | -- | -- | -- | 692 |
| Capital stock and participation certificates retired | (1,128) | -- | -- | -- | (1,128) |
| Balance as of December 31, 2019 | 12,151 | 304,385 | 1,488,700 | (5,412) | 1,799,824 |
| Net income | **--** | **--** | **183,662** | **--** | **183,662** |
| Other comprehensive loss | **--** | **--** | **--** | **(4,250)** | **(4,250)** |
| Unallocated surplus designated for patronage distributions | **--** | **--** | **(64,050)** | **--** | **(64,050)** |
| Capital stock and participation certificates issued | **851** | **--** | **--** | **--** | **851** |
| Capital stock and participation certificates retired | **(1,066)** | **--** | **--** | **--** | **(1,066)** |
| Capital stock and participation certificates receivable, net | **(11,936)** | **--** | **--** | **--** | **(11,936)** |
| **Balance as of December 31, 2020** | **$ --** | **$ 304,385** | **$ 1,608,312** | **$ (9,662)** | **$ 1,903,035** |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*AgCountry Farm Credit Services, ACA*

*(in thousands)*

| For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | **$ 183,662** | $ 157,846 | $ 170,106 |
| Depreciation on premises and equipment | **2,493** | 2,588 | 2,856 |
| Loss (gain) on sale of premises and equipment, net | **281** | (331) | (141) |
| Depreciation on assets held for lease | **--** | 249 | 1,699 |
| Gain on disposal of assets held for lease, net | **--** | (342) | (370) |
| Amortization of (discounts) premiums on loans | **(65)** | (2) | 40 |
| Net amortization of yield related to loans and notes payable acquired in merger | **(453)** | (521) | (1,168) |
| (Reversal of) provision for credit losses | **(2,754)** | 11,553 | 2,470 |
| Stock patronage received from Farm Credit Institutions | **(65)** | (16,028) | (70) |
| (Gain) loss on other property owned, net | **(62)** | 23 | 67 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in accrued interest receivable | **12,926** | (11,774) | (12,301) |
| Increase in other assets | **(3,059)** | (8,950) | (15,188) |
| (Decrease) increase in accrued interest payable | **(18,346)** | (376) | 10,890 |
| Increase (decrease) in other liabilities | **10,362** | 96 | (10,922) |
| Net cash provided by operating activities | **184,920** | 134,031 | 147,968 |
| **Cash flows from investing activities** | | | |
| Increase in loans, net | **(693,821)** | (520,551) | (152,672) |
| Purchases of investment in AgriBank, FCB, net | **(10,639)** | (884) | (28,319) |
| (Purchases) redemptions of investment in other Farm Credit Institutions, net | **(3,662)** | 78 | 834 |
| Sales of assets held for lease, net | **--** | 1,908 | 3,756 |
| Proceeds from sales of other property owned | **362** | 251 | 10 |
| (Purchases) sales of premises and equipment, net | **(895)** | 2,539 | 441 |
| Net cash used in investing activities | **(708,655)** | (516,659) | (175,950) |
| **Cash flows from financing activities** | | | |
| Increase in note payable to AgriBank, FCB, net | **583,957** | 425,568 | 62,336 |
| Patronage distributions paid | **(60,000)** | (42,500) | (34,494) |
| Capital stock and participation certificates (retired) issued, net | **(215)** | (436) | 136 |
| Net cash provided by financing activities | **523,742** | 382,632 | 27,978 |
| Net change in cash | **7** | 4 | (4) |
| Cash at beginning of year | **11** | 7 | 11 |
| Cash at end of year | **$ 18** | $ 11 | $ 7 |
| **Supplemental schedule of non-cash activities** | | | |
| Change in capital stock and participation certificates receivable | **$ (11,936)** | $ -- | $ -- |
| **Supplemental information** | | | |
| Interest paid | **$ 122,500** | $ 159,198 | $ 127,409 |
| Taxes paid, net | **5** | 3,312 | 2,323 |

*The accompanying notes are an integral part of these Consolidated Financial Statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*AgCountry Farm Credit Services, ACA*

## NOTE 1: ORGANIZATION AND OPERATIONS

### Farm Credit System and District

The Farm Credit System (System) is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations, established by Congress to meet the credit needs of American agriculture. As of January 1, 2021, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 67 borrower-owned cooperative lending institutions (associations). AgriBank, FCB (AgriBank), a System Farm Credit Bank, and its District associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At January 1, 2021, the District consisted of 14 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through its subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit System Insurance Corporation (FCSIC) administers the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to District associations each year based on similar factors.

### Association

AgCountry Farm Credit Services, ACA (the Association) and its subsidiaries, AgCountry Farm Credit Services, FLCA and AgCountry Farm Credit Services, PCA (subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Becker, Beltrami, Big Stone, Chippewa, Clay, Clearwater, Douglas, Grant, Hubbard, Kandiyohi, Kittson, Koochiching, Lake of the Woods, Lac qui Parle, Lincoln, Lyon, Mahnomen, Marshall, Meeker, Norman, Otter Tail, Pennington, Polk, Pope, Red Lake, Redwood, Renville, Roseau, Stevens, Swift, Todd, Traverse, Wadena, Wilkin, and Yellow Medicine in the state of Minnesota; Barnes, Cass, Cavalier, Dickey, Grand Forks, Griggs, LaMoure, Nelson, Pembina, Ramsey, Ransom, Richland, Sargent, Steele, Stutsman, Towner, Traill, and Walsh in the state of North Dakota; and Clark, Forest, Langlade, Lincoln, Marathon, Oneida, Portage, Price, Taylor, Vilas, Waushara, and Wood in the state of Wisconsin.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans for agricultural production or operating purposes. We also facilitate lease financing options through our alliance partner, Farm Credit Leasing (FCL).

We offer credit life, term life, credit disability, crop hail, and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer farm accounting, fee appraisals, income tax planning and preparation services, retirement and succession planning, and producer education services to our members.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Principles of Consolidation**

The Consolidated Financial Statements present the consolidated financial results of AgCountry Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

**Significant Accounting Policies**

**Loans:** Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans, and unamortized premiums or discounts on purchased loans and unamortized adjustments to fair value on loans acquired through merger. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of direct loan origination costs, are deferred and recognized over the life of the loan as an adjustment to net interest income.

Generally, we place loans in nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is adequately secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected, and certain other criteria are met. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status after remaining current as to principal and interest for a sustained period or having a recent repayment pattern demonstrating future repayment capacity to make on-time payments.

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below). There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered troubled debt restructurings (TDRs).

Loans that are sold as participations are transferred as entire financial assets, groups of entire financial assets, or participating interests in the loans. The transfers of such assets or participating interests are structured such that control over the transferred assets, or participating interests have been surrendered and that all of the conditions have been met to be accounted for as a sale.

**Purchased Credit-Impaired (PCI) Loans:** Loans acquired through merger with evidence of credit deterioration since their origination and when it is probable that we will not collect all contractually required principal and interest payments are PCI loans. PCI loans are written down at acquisition to estimated fair value and an accretable yield may be established. The excess of cash flows expected to be collected over the carrying value is referred to as the accretable yield and is recognized in interest income using the effective yield method over the remaining life of the loan.

Evidence of credit quality deterioration as of the purchase date may include statistics such as past due and nonaccrual status. Acquired loans that meet our definition of risk loans are generally considered to be credit-impaired and are accounted for as individual loans. Accounting for PCI loans involves estimating fair value at acquisition using the cash flows expected to be collected. As we generally are unable to estimate the timing and amount of future cash flows, measurement is based on the net realizable value of the collateral underlying these loans.

**Allowance for Loan Losses:** The allowance for loan losses is our best estimate of the amount of losses on loans inherent in our portfolio as of the date of the financial statements. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include nonaccrual loans, accruing restructured loans, and accruing loans 90 days or more past due. All risk loans are considered to be impaired loans, including purchased credit-impaired loans.

We record a specific allowance to reduce the carrying amount of the risk loan by the amount the recorded investment exceeds the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss severity. The combination of estimated default probability and loss severity is the primary basis for recognition and measurement of loan collectability of these pools of loans. These estimated losses may be adjusted for relevant current environmental factors.

Changes in the allowance for loan losses consist of provision activity, recorded in "(Reversal of) provision for credit losses" in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

For purchased loans that are not deemed impaired at acquisition, credit discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans. However, we record a provision for credit losses only when the required allowance exceeds any remaining credit discounts. The remaining differences between the purchase price and the unpaid principal balance at the date of acquisition are recorded in “Interest income” in the Consolidated Statements of Comprehensive Income over the life of the loans.

**Investment in AgriBank:** Our stock investment in AgriBank is on a cost plus allocated equities basis.

**Other Property Owned:** Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at the fair value less estimated selling costs upon acquisition and is included in “Other assets” in the Consolidated Statements of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less costs to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in “Other non-interest income” in the Consolidated Statements of Comprehensive Income.

**Other Investments:** The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold a non-controlling interest, are at cost and are included in “Other assets” in the Consolidated Statements of Condition. The investments are assessed for impairment. If impairment exists, losses are included in Net income in the Consolidated Statements of Comprehensive Income in the year of impairment. Income on the investments are limited to distributions received. In circumstances when distributions exceed our share of earnings after the date of the investment, these distributions are applied to reduce the carrying value of the investment and are not recognized as income.

**Premises and Equipment:** The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in “Other non-interest income” or “Other non-interest expense” in the Consolidated Statements of Comprehensive Income. Depreciation and maintenance and repair expenses are included in “Other operating expense” in the Consolidated Statements of Comprehensive Income and improvements are capitalized.

**Leases:** We are the lessee in operating leases. We evaluate arrangements at inception to determine if it is a lease. Leases with an initial term of 12 months or less are not recorded on the Consolidated Statements of Condition. For operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

The ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Our lease terms may include options to extend or terminate the lease. The length of the lease term is modified to include the option when it is reasonably certain that we will exercise that option. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term.

**Post-Employment Benefit Plans:** The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income.

Certain employees participate in the AgriBank District Retirement Plan. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001, are on the cash balance formula or on the final average pay formula. Benefits eligible employees hired between October 1, 2001, and December 31, 2006, are on the cash balance formula. Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. The AgriBank District Retirement Plan utilizes the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. The pension liability attributable to the Pension Restoration Plan at the Association and the related accumulated other comprehensive loss are included in the Consolidated Statements of Condition. The components of net periodic cost other than the service cost component, are included in the line item “Other operating expense” on the Consolidated Statements of Comprehensive Income. Service costs are included in the line item “Salaries and employee benefits” on the Consolidated Statements of Comprehensive Income.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees’ active service period.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee’s contributions. We provide benefits under this plan for those employees that do not participate in the AgriBank District Retirement Plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the Internal Revenue Service (IRS), are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the retirement savings plan if it were not for certain IRS limitations.

**Income Taxes:** The ACA and PCA accrue federal and state income taxes. The ACA and PCA are exempt from Minnesota state income tax. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

**Patronage Program:** We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

**Off-Balance Sheet Credit Exposures:** Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management's best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss is recorded in "Provision for credit losses" in the Consolidated Statements of Comprehensive Income.

**Cash:** For purposes of reporting cash flow, cash includes deposits in banks. The net cash position is recorded in "Other assets" or "Other liabilities" in the Consolidated Statements of Condition.

**Fair Value Measurement:** The accounting guidance describes three levels of inputs that may be used to measure fair value.

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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:

- Quoted prices for similar assets or liabilities in active markets
- 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, quoted prices that are not current, or principal market information that is not released publicly
- Inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates
- Inputs derived principally from or corroborated by observable market data by correlation or other means

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is 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.

**Recently Issued or Adopted Accounting Pronouncements**

We have assessed the potential impact of accounting standards that have been issued by the Financial Accounting Standards Board (FASB) and have determined the following standards to be applicable to our business. While we are a nonpublic entity, our financial results are closely related to the performance of the combined Farm Credit System. Therefore, we typically adopt accounting pronouncements in alignment with other System institutions.

| Standard and effective date | Description | Adoption status and financial statement impact |
|---|---|---|
| In March 2020, the FASB issued guidance, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The optional amendments are effective for all entities as of March 12, 2020, through December 31, 2022. | 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 contract terms related to the replacement of the reference rate. | We are currently evaluating the impact of this guidance on our financial condition, results of operations, cash flows, and financial statement disclosures. |
| In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for the first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 that amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for the first quarter of 2023 and early adoption is permitted. | 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. | We expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of validating quarterly data and drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements. |

## NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

**Loans by Type**

| (dollars in thousands) | **2020** | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| As of December 31 | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | **$ 3,659,953** | **43.2%** | $ 3,261,426 | 42.0% | $ 3,079,351 | 42.4% |
| Production and intermediate-term | **2,058,139** | **24.3%** | 2,131,112 | 27.4% | 2,049,893 | 28.3% |
| Agribusiness | **2,030,071** | **24.0%** | 1,784,023 | 22.9% | 1,594,142 | 22.0% |
| Other | **723,982** | **8.5%** | 597,633 | 7.7% | 526,418 | 7.3% |
| Total | **$ 8,472,145** | **100.0%** | $ 7,774,194 | 100.0% | $ 7,249,804 | 100.0% |

The other category is primarily composed of communication, energy, agricultural export finance, and water and wastewater related loans.

**Portfolio Concentrations**

Concentrations exist when there are amounts loaned to multiple borrowers engaged in similar activities, which could cause them to be similarly impacted by economic conditions. We lend primarily within agricultural industries.

As of December 31, 2020, volume plus commitments to our ten largest borrowers totaled an amount equal to 4.7% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. 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 may include real estate, equipment, inventory, livestock, and income-producing property. Long-term real estate loans are secured by the first liens on the underlying real property.

## Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with the limitations of the FCA Regulations or General Financing Agreement (GFA) with AgriBank.

**Participations Purchased and Sold**

| (in thousands) | AgriBank Participations | | Other Farm Credit Institutions Participations | | Non-Farm Credit Institutions Participations | | Total Participations | |
|---|---|---|---|---|---|---|---|---|
| **As of December 31, 2020** | Purchased | Sold | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | **$ --** | **$ (244,056)** | **$ 329,377** | **$ (300,260)** | **$ 88** | **$ (9,941)** | **$ 329,465** | **$ (554,257)** |
| Production and intermediate-term | **--** | **(251,051)** | **572,270** | **(292,497)** | **40,459** | **(10,146)** | **612,729** | **(553,694)** |
| Agribusiness | **--** | **(12,008)** | **1,166,797** | **(1,389,579)** | **77,858** | **(7,813)** | **1,244,655** | **(1,409,400)** |
| Other | **--** | **(266)** | **1,280,625** | **(600,791)** | **--** | **--** | **1,280,625** | **(601,057)** |
| Total | **$ --** | **$ (507,381)** | **$ 3,349,069** | **$ (2,583,127)** | **$ 118,405** | **$ (27,900)** | **$ 3,467,474** | **$ (3,118,408)** |

| | AgriBank Participations | | Other Farm Credit Institutions Participations | | Non-Farm Credit Institutions Participations | | Total Participations | |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2019 | Purchased | Sold | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | $ -- | $ (291,025) | $ 263,718 | $ (287,954) | $ 163 | $ (10,705) | $ 263,881 | $ (589,684) |
| Production and intermediate-term | -- | (225,342) | 501,294 | (233,955) | 87,741 | (6,317) | 589,035 | (465,614) |
| Agribusiness | -- | (8,189) | 995,560 | (1,208,668) | 99,809 | (1,040) | 1,095,369 | (1,217,897) |
| Other | -- | (347) | 1,136,847 | (558,040) | 63 | -- | 1,136,910 | (558,387) |
| Total | $ -- | $ (524,903) | $ 2,897,419 | $ (2,288,617) | $ 187,776 | $ (18,062) | $ 3,085,195 | $ (2,831,582) |

| | AgriBank Participations | | Other Farm Credit Institutions Participations | | Non-Farm Credit Institutions Participations | | Total Participations | |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2018 | Purchased | Sold | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | $ -- | $ (335,503) | $ 211,230 | $ (257,921) | $ 242 | $ (9,438) | $ 211,472 | $ (602,862) |
| Production and intermediate-term | -- | (207,260) | 504,556 | (216,690) | 87,905 | (4,279) | 592,461 | (428,229) |
| Agribusiness | -- | (20,266) | 893,714 | (1,102,617) | 193,187 | (41,661) | 1,086,901 | (1,164,544) |
| Other | -- | (517) | 1,002,118 | (499,443) | -- | -- | 1,002,118 | (499,960) |
| Total | $ -- | $ (563,546) | $ 2,611,618 | $ (2,076,671) | $ 281,334 | $ (55,378) | $ 2,892,952 | $ (2,695,595) |

Information in the preceding chart excludes loans entered into under our mission related investment authority.

## Credit Quality and Delinquency

We utilize the FCA Uniform Classification System to categorize loans into five credit quality categories. The categories are:

- Acceptable – loans are non-criticized loans representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default.
- Other assets especially mentioned (Special Mention) – loans are currently collectible but exhibit some potential weakness. These loans involve increased credit risk, but not to the point of justifying a substandard classification.
- Substandard – loans exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – loans exhibit similar weaknesses as substandard loans. Doubtful loans have additional weaknesses in existing factors, conditions, and values that make collection in full highly questionable.
- Loss – loans are considered uncollectible.

We had no loans categorized as loss at December 31, 2020, 2019, or 2018.

**Credit Quality of Loans**

| (dollars in thousands) | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| **As of December 31, 2020** | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | **$ 3,492,630** | **94.2%** | **$ 140,249** | **3.8%** | **$ 74,936** | **2.0%** | **$ 3,707,815** | **100.0%** |
| Production and intermediate-term | **1,957,135** | **93.8%** | **95,260** | **4.6%** | **32,747** | **1.6%** | **2,085,142** | **100.0%** |
| Agribusiness | **1,922,744** | **94.5%** | **87,285** | **4.3%** | **25,052** | **1.2%** | **2,035,081** | **100.0%** |
| Other | **715,995** | **98.8%** | **5,855** | **0.8%** | **2,950** | **0.4%** | **724,800** | **100.0%** |
| Total | **$ 8,088,504** | **94.6%** | **$ 328,649** | **3.8%** | **$ 135,685** | **1.6%** | **$ 8,552,838** | **100.0%** |

| As of December 31, 2019 | Acceptable Amount | % | Special Mention Amount | % | Substandard/ Doubtful Amount | % | Total Amount | % |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage | $ 3,101,186 | 93.5% | $ 111,323 | 3.4% | $ 102,563 | 3.1% | $ 3,315,072 | 100.0% |
| Production and intermediate-term | 2,047,267 | 94.4% | 65,603 | 3.0% | 56,242 | 2.6% | 2,169,112 | 100.0% |
| Agribusiness | 1,706,642 | 95.4% | 46,920 | 2.6% | 36,627 | 2.0% | 1,790,189 | 100.0% |
| Other | 568,273 | 94.9% | 12,305 | 2.1% | 17,998 | 3.0% | 598,576 | 100.0% |
| Total | $ 7,423,368 | 94.3% | $ 236,151 | 3.0% | $ 213,430 | 2.7% | $ 7,872,949 | 100.0% |

| As of December 31, 2018 | Acceptable Amount | % | Special Mention Amount | % | Substandard/ Doubtful Amount | % | Total Amount | % |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage | $ 2,892,164 | 92.5% | $ 132,434 | 4.2% | $ 104,242 | 3.3% | $ 3,128,840 | 100.0% |
| Production and intermediate-term | 1,960,895 | 94.0% | 82,518 | 4.0% | 42,004 | 2.0% | 2,085,417 | 100.0% |
| Agribusiness | 1,525,443 | 95.3% | 36,841 | 2.3% | 38,394 | 2.4% | 1,600,678 | 100.0% |
| Other | 502,497 | 95.2% | 19,492 | 3.7% | 5,551 | 1.1% | 527,540 | 100.0% |
| Total | $ 6,880,999 | 93.7% | $ 271,285 | 3.7% | $ 190,191 | 2.6% | $ 7,342,475 | 100.0% |

Note: Accruing loans include accrued interest receivable.

**Aging Analysis of Loans**

| (in thousands)<br>**As of December 31, 2020** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 587** | **$ 6,623** | **$ 7,210** | **$ 3,700,605** | **$ 3,707,815** | **$ 1,490** |
| Production and intermediate-term | **3,776** | **5,079** | **8,855** | **2,076,287** | **2,085,142** | **607** |
| Agribusiness | **50** | **--** | **50** | **2,035,031** | **2,035,081** | **--** |
| Other | **32** | **--** | **32** | **724,768** | **724,800** | **--** |
| Total | **$ 4,445** | **$ 11,702** | **$ 16,147** | **$ 8,536,691** | **$ 8,552,838** | **$ 2,097** |

| As of December 31, 2019 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 6,490 | $ 2,820 | $ 9,310 | $ 3,305,762 | $ 3,315,072 | $ -- |
| Production and intermediate-term | 8,078 | 4,034 | 12,112 | 2,157,000 | 2,169,112 | 512 |
| Agribusiness | 630 | 41 | 671 | 1,789,518 | 1,790,189 | -- |
| Other | -- | -- | -- | 598,576 | 598,576 | -- |
| Total | $ 15,198 | $ 6,895 | $ 22,093 | $ 7,850,856 | $ 7,872,949 | $ 512 |

| As of December 31, 2018 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 3,651 | $ 10,269 | $ 13,920 | $ 3,114,920 | $ 3,128,840 | $ 6,661 |
| Production and intermediate-term | 6,773 | 4,105 | 10,878 | 2,074,539 | 2,085,417 | -- |
| Agribusiness | 225 | 41 | 266 | 1,600,412 | 1,600,678 | -- |
| Other | -- | 16 | 16 | 527,524 | 527,540 | -- |
| Total | $ 10,649 | $ 14,431 | $ 25,080 | $ 7,317,395 | $ 7,342,475 | $ 6,661 |

Note: Accruing loans include accrued interest receivable.

## Risk Loans

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and cash payments received on nonaccrual risk loans are applied as described in Note 2.

**Risk Loan Information**

| (in thousands)<br>As of December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Nonaccrual loans: | | | | | | |
| Current as to principal and interest | **$** | **4,916** | $ | 15,022 | $ | 20,771 |
| Past due | | **9,433** | | 6,867 | | 8,719 |
| Total nonaccrual loans | | **14,349** | | 21,889 | | 29,490 |
| Accruing restructured loans | | **1,982** | | 462 | | 503 |
| Accruing loans 90 days or more past due | | **2,097** | | 512 | | 6,661 |
| Total risk loans | **$** | **18,428** | $ | 22,863 | $ | 36,654 |
| Volume with specific allowance | **$** | **1,585** | $ | 9,208 | $ | 14,331 |
| Volume without specific allowance | | **16,843** | | 13,655 | | 22,323 |
| Total risk loans | **$** | **18,428** | $ | 22,863 | $ | 36,654 |
| Total specific allowance | **$** | **1,013** | $ | 3,569 | $ | 6,389 |

| For the year ended December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Income on accrual risk loans | **$** | **150** | $ | 733 | $ | 163 |
| Income on nonaccrual loans | | **2,761** | | 1,581 | | 2,504 |
| Total income on risk loans | **$** | **2,911** | $ | 2,314 | $ | 2,667 |
| Average risk loans | **$** | **26,353** | $ | 43,762 | $ | 34,948 |

Note: Accruing loans include accrued interest receivable.

**Nonaccrual Loans by Loan Type**

| (in thousands)<br>As of December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$** | **8,561** | $ | 9,693 | $ | 9,899 |
| Production and intermediate-term | | **4,988** | | 4,276 | | 6,577 |
| Agribusiness | | **800** | | 4,197 | | 8,715 |
| Other | | **--** | | 3,723 | | 4,299 |
| Total | **$** | **14,349** | $ | 21,889 | $ | 29,490 |

**Additional Impaired Loan Information by Loan Type**

| | As of December 31, 2020 | | | | | | For the year ended December 31, 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in thousands) | | Recorded Investment[1] | | Unpaid Principal Balance[2] | | Related Allowance | | Average Impaired Loans | | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | | | | | | |
| Real estate mortgage | **$** | **--** | **$** | **--** | **$** | **--** | **$** | **--** | **$** | **--** |
| Production and intermediate-term | | **1,553** | | **1,956** | | **1,004** | | **4,000** | | **--** |
| Agribusiness | | **32** | | **55** | | **9** | | **2,388** | | **--** |
| Other | | **--** | | **--** | | **--** | | **2,278** | | **--** |
| Total | **$** | **1,585** | **$** | **2,011** | **$** | **1,013** | **$** | **8,666** | **$** | **--** |
| Impaired loans with no related allowance for loan losses: | | | | | | | | | | |
| Real estate mortgage | **$** | **10,566** | **$** | **12,588** | **$** | **--** | **$** | **12,025** | **$** | **1,827** |
| Production and intermediate-term | | **5,509** | | **6,121** | | **--** | | **3,841** | | **1,034** |
| Agribusiness | | **768** | | **1,823** | | **--** | | **1,087** | | **50** |
| Other | | **--** | | **--** | | **--** | | **734** | | **--** |
| Total | **$** | **16,843** | **$** | **20,532** | **$** | **--** | **$** | **17,687** | **$** | **2,911** |
| Total impaired loans: | | | | | | | | | | |
| Real estate mortgage | **$** | **10,566** | **$** | **12,588** | **$** | **--** | **$** | **12,025** | **$** | **1,827** |
| Production and intermediate-term | | **7,062** | | **8,077** | | **1,004** | | **7,841** | | **1,034** |
| Agribusiness | | **800** | | **1,878** | | **9** | | **3,475** | | **50** |
| Other | | **--** | | **--** | | **--** | | **3,012** | | **--** |
| Total | **$** | **18,428** | **$** | **22,543** | **$** | **1,013** | **$** | **26,353** | **$** | **2,911** |

| | As of December 31, 2019 | | | For the year ended December 31, 2019 | |
|---|---|---|---|---|---|
| | Recorded Investment[1] | Unpaid Principal Balance[2] | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | |
| Real estate mortgage | $ -- | $ -- | $ -- | $ -- | $ -- |
| Production and intermediate-term | 2,072 | 2,456 | 1,310 | 2,990 | -- |
| Agribusiness | 3,413 | 3,769 | 904 | 14,507 | -- |
| Other | 3,723 | 4,230 | 1,355 | 4,039 | -- |
| Total | $ 9,208 | $ 10,455 | $ 3,569 | $ 21,536 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 10,149 | $ 12,961 | $ -- | $ 17,469 | $ 300 |
| Production and intermediate-term | 2,722 | 3,675 | -- | 3,925 | 1,367 |
| Agribusiness | 784 | 1,911 | -- | 764 | 647 |
| Other | -- | -- | -- | 68 | -- |
| Total | $ 13,655 | $ 18,547 | $ -- | $ 22,226 | $ 2,314 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 10,149 | $ 12,961 | $ -- | $ 17,469 | $ 300 |
| Production and intermediate-term | 4,794 | 6,131 | 1,310 | 6,915 | 1,367 |
| Agribusiness | 4,197 | 5,680 | 904 | 15,271 | 647 |
| Other | 3,723 | 4,230 | 1,355 | 4,107 | -- |
| Total | $ 22,863 | $ 29,002 | $ 3,569 | $ 43,762 | $ 2,314 |

| | As of December 31, 2018 | | | For the year ended December 31, 2018 | |
|---|---|---|---|---|---|
| | Recorded Investment[1] | Unpaid Principal Balance[2] | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | |
| Real estate mortgage | $ -- | $ -- | $ -- | $ -- | $ -- |
| Production and intermediate-term | 2,917 | 3,044 | 1,601 | 5,065 | -- |
| Agribusiness | 7,248 | 7,494 | 3,430 | 3,666 | -- |
| Other | 4,166 | 4,386 | 1,358 | 3,422 | -- |
| Total | $ 14,331 | $ 14,924 | $ 6,389 | $ 12,153 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 17,033 | $ 18,917 | $ -- | $ 13,073 | $ 209 |
| Production and intermediate-term | 3,690 | 4,595 | -- | 6,408 | 2,083 |
| Agribusiness | 1,467 | 2,648 | -- | 3,220 | 375 |
| Other | 133 | 133 | -- | 94 | -- |
| Total | $ 22,323 | $ 26,293 | $ -- | $ 22,795 | $ 2,667 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 17,033 | $ 18,917 | $ -- | $ 13,073 | $ 209 |
| Production and intermediate-term | 6,607 | 7,639 | 1,601 | 11,473 | 2,083 |
| Agribusiness | 8,715 | 10,142 | 3,430 | 6,886 | 375 |
| Other | 4,299 | 4,519 | 1,358 | 3,516 | -- |
| Total | $ 36,654 | $ 41,217 | $ 6,389 | $ 34,948 | $ 2,667 |

Note: Impaired loans include purchased credit-impaired loans.

[1]The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

[2]Unpaid principal balance represents the contractual principal balance of the loan.

We had no material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2020.

## Troubled Debt Restructurings (TDRs)

Included within our risk loans are TDRs. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within our allowance for loan losses.

**TDR Activity**

| (in thousands)<br>For the year ended December 31 | **2020** | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | Pre-modification | Post-modification | Pre-modification | Post-modification | Pre-modification | Post-modification |
| Real estate mortgage | **$ 264** | **$ 264** | $ -- | $ -- | $ 545 | $ 545 |
| Production and intermediate-term | **1,400** | **1,400** | -- | -- | 502 | 502 |
| Agribusiness | **37** | **37** | 22,240 | 22,240 | 3,951 | 3,951 |
| Total | **$ 1,701** | **$ 1,701** | $ 22,240 | $ 22,240 | $ 4,998 | $ 4,998 |

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

The primary types of modification included deferral of principal and extension of maturity.

**TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted**

| (in thousands) | **2020** | 2019 | 2018 |
|---|---|---|---|
| Production and intermediate-term | **$ --** | $ -- | $ 16 |
| Agribusiness | **--** | -- | 3,492 |
| Total | **$ --** | $ -- | $ 3,508 |

**TDRs Outstanding**

| (in thousands)<br>As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Accrual status: | | | |
| Real estate mortgage | **$ 515** | $ 456 | $ 472 |
| Production and intermediate-term | **1,467** | 6 | 31 |
| Agribusiness | **--** | -- | -- |
| Total TDRs in accrual status | **$ 1,982** | $ 462 | $ 503 |
| Nonaccrual status: | | | |
| Real estate mortgage | **$ 1,666** | $ 2,913 | $ 3,200 |
| Production and intermediate-term | **248** | 370 | 440 |
| Agribusiness | **19** | 3,341 | 3,784 |
| Total TDRs in nonaccrual status | **$ 1,933** | $ 6,624 | $ 7,424 |
| Total TDRs: | | | |
| Real estate mortgage | **$ 2,181** | $ 3,369 | $ 3,672 |
| Production and intermediate-term | **1,715** | 376 | 471 |
| Agribusiness | **19** | 3,341 | 3,784 |
| Total TDRs | **$ 3,915** | $ 7,086 | $ 7,927 |

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2020.

## Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | **$ 26,974** | $ 17,796 | $ 15,818 |
| (Reversal of) provision for loan losses | **(3,598)** | 10,622 | 2,684 |
| Loan recoveries | **274** | 188 | 486 |
| Loan charge-offs | **(1,306)** | (1,632) | (1,192) |
| Balance at end of year | **$ 22,344** | $ 26,974 | $ 17,796 |

The “(Reversal of) provision for credit losses” in the Consolidated Statements of Comprehensive Income includes a (reversal of) provision for loan losses as presented in the previous chart, as well as a provision for (reversal of) credit losses on unfunded commitments. The accrued credit losses on unfunded commitments are recorded in “Other liabilities” in the Consolidated Statements of Condition. Typically, accrued credit losses are relieved and replaced with an allowance for loan loss as the related commitments are funded.

**Credit Loss Information on Unfunded Commitments**

| (in thousands)<br>For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Provision for (reversal of) credit losses | **$ 844** | $ 931 | $ (214) |
| As of December 31 | **2020** | 2019 | 2018 |
| Accrued credit losses | **$ 3,838** | $ 2,994 | $ 2,062 |

**Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type**

| (in thousands) | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2019 | **$ 2,672** | **$ 11,641** | **$ 9,058** | **$ 3,603** | **$ 26,974** |
| Reversal of loan losses | **(64)** | **(2,283)** | **(459)** | **(792)** | **(3,598)** |
| Loan recoveries | **247** | **15** | **12** | **--** | **274** |
| Loan charge-offs | **--** | **(109)** | **--** | **(1,197)** | **(1,306)** |
| Balance as of December 31, 2020 | **$ 2,855** | **$ 9,264** | **$ 8,611** | **$ 1,614** | **$ 22,344** |
| Ending balance: individually evaluated for impairment | **$ --** | **$ 1,004** | **$ 9** | **$ --** | **$ 1,013** |
| Ending balance: collectively evaluated for impairment | **$ 2,855** | **$ 8,260** | **$ 8,602** | **$ 1,614** | **$ 21,331** |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2020 | **$ 3,707,815** | **$ 2,085,142** | **$ 2,035,081** | **$ 724,800** | **$ 8,552,838** |
| Ending balance: individually evaluated for impairment | **$ 10,566** | **$ 7,062** | **$ 800** | **$ --** | **$ 18,428** |
| Ending balance: collectively evaluated for impairment | **$ 3,697,249** | **$ 2,078,080** | **$ 2,034,281** | **$ 724,800** | **$ 8,534,410** |

| | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2018 | $ 2,211 | $ 3,649 | $ 8,737 | $ 3,199 | $ 17,796 |
| Provision for loan losses | 396 | 8,337 | 1,485 | 404 | 10,622 |
| Loan recoveries | 65 | 111 | 12 | -- | 188 |
| Loan charge-offs | -- | (456) | (1,176) | -- | (1,632) |
| Balance as of December 31, 2019 | $ 2,672 | $ 11,641 | $ 9,058 | $ 3,603 | $ 26,974 |
| Ending balance: individually evaluated for impairment | $ -- | $ 1,310 | $ 904 | $ 1,355 | $ 3,569 |
| Ending balance: collectively evaluated for impairment | $ 2,672 | $ 10,331 | $ 8,154 | $ 2,248 | $ 23,405 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2019 | $ 3,315,072 | $ 2,169,112 | $ 1,790,189 | $ 598,576 | $ 7,872,949 |
| Ending balance: individually evaluated for impairment | $ 10,149 | $ 4,794 | $ 4,197 | $ 3,723 | $ 22,863 |
| Ending balance: collectively evaluated for impairment | $ 3,304,923 | $ 2,164,318 | $ 1,785,992 | $ 594,853 | $ 7,850,086 |

| | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2017 | $ 2,304 | $ 5,923 | $ 4,590 | $ 3,001 | $ 15,818 |
| (Reversal of) provision for loan losses | (158) | (1,491) | 4,135 | 198 | 2,684 |
| Loan recoveries | 65 | 409 | 12 | -- | 486 |
| Loan charge-offs | -- | (1,192) | -- | -- | (1,192) |
| Balance as of December 31, 2018 | $ 2,211 | $ 3,649 | $ 8,737 | $ 3,199 | $ 17,796 |
| Ending balance: individually evaluated for impairment | $ -- | $ 1,601 | $ 3,430 | $ 1,358 | $ 6,389 |
| Ending balance: collectively evaluated for impairment | $ 2,211 | $ 2,048 | $ 5,307 | $ 1,841 | $ 11,407 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2018 | $ 3,128,840 | $ 2,085,417 | $ 1,600,678 | $ 527,540 | $ 7,342,475 |
| Ending balance: individually evaluated for impairment | $ 17,033 | $ 6,607 | $ 8,715 | $ 4,299 | $ 36,654 |
| Ending balance: collectively evaluated for impairment | $ 3,111,807 | $ 2,078,810 | $ 1,591,963 | $ 523,241 | $ 7,305,821 |

The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, acquisition costs, and unamortized adjustments to fair value on loans acquired through the merger and may also reflect a previous direct charge-off of the investment.

## NOTE 4: INVESTMENT IN AGRIBANK

As of December 31, 2020, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable, with an additional amount required on association growth in excess of a targeted growth rate, if the District is also growing above a targeted growth rate.

We are also required to hold AgriBank stock related to our participation in pool programs. The required investment amount varies by pool program and is generally a percentage of the loan balance in the pool.

AgriBank's capital plan provides for annual retirement of AgriBank stock and optimizes capital at the Bank by distributing all available Bank earnings in the form of patronage, either in cash or stock. The plan is designed to maintain capital adequacy such that sufficient earnings will be retained in the form of allocated retained earnings and allocated stock to meet the leverage ratio target and other regulatory or policy constraints prior to any cash patronage distributions.

## NOTE 5: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and substantially all of our assets serve as collateral.

**Note Payable Information**

(dollars in thousands)

| As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Line of credit | **$ 10,000,000** | $ 7,250,000 | $ 7,250,000 |
| Outstanding principal under the line of credit | **6,832,777** | 6,248,820 | 5,823,252 |
| Interest rate | **1.2%** | 2.4% | 2.6% |

Our note payable was scheduled to mature on June 30, 2021. However, it was renewed early for $10.0 billion with a maturity date of June 30, 2023. We intend to renegotiate the note payable no later than the maturity date.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. Additionally, we have requirements to maintain an effective program of internal controls over financial reporting. At December 31, 2020, and throughout the year, we were not declared in default under any GFA covenants or provisions.

## NOTE 6: MEMBERS' EQUITY

### Capitalization Requirements

In accordance with the Farm Credit Act, each member is required to invest in AgCountry as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less, or such greater amount of such member's aggregate outstanding loan balance as may be determined by the Board of Directors from time to time. The Board of Directors has established a stock requirement for loans of one thousand dollars at a customer level. The investment requirement for each lessee that is not a current stock or participation certificate holder is a single $5.00 participation certificate in the ACA. The ACA and its subsidiaries, PCA and FLCA, are also authorized by FCA to offer approved financial services to persons eligible to borrow from the System. The investment requirement for each purchaser of crop insurance that is not a stock or participation certificate holder is a single $5.00 participation certificate in the ACA. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws.

The member acquires ownership of capital stock or participation certificates at the time the loan is made. Members are not currently required to make a cash investment to acquire capital stock or participation certificates. However, their obligation to pay for the capital stock or participation certificates is maintained as an interest free obligation with AgCountry. The capital stock and participation certificates are at-risk investments as described in the AgCountry capital bylaws. AgCountry retains a first lien on common stock or participation certificates owned by its members. Stock is retired in accordance with AgCountry bylaws. Members are responsible for payment of the cash investment upon demand by AgCountry. Effective January 1, 2020, there was a change in the regulatory interpretation related to the accounting for capital stock and participation certificates at AgCountry, along with other Farm Credit Associations. The capital stock and participation certificates are included within members' equity on the Consolidated Statements of Condition and a new contra line item titled "Capital stock and participation certificates receivable" has been added for the same amount. This change has no impact on the capital stock or participation certificates owned by AgCountry members, and members retain all rights afforded to them by the Farm Credit Act. In addition this change had no material impact on our capital ratios.

## Regulatory Capitalization Requirements

**Regulatory Capital Requirements and Ratios**

| As of December 31 | **2020** | 2019 | 2018 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|---|
| Risk-adjusted: | | | | | | |
| Common equity tier 1 ratio | **18.1%** | 18.6% | 18.2% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **18.1%** | 18.6% | 18.2% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **18.4%** | 18.9% | 18.5% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **18.1%** | 18.6% | 18.3% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 leverage ratio | **20.4%** | 20.8% | 20.5% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **21.7%** | 21.8% | 21.3% | 1.5% | N/A | 1.5% |

Risk-adjusted assets have been defined by the FCA Regulations as the Statement of Condition assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets.

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the inclusion of the allowance for loan losses as a deduction to risk-adjusted assets for the permanent capital ratio.

These ratios are based on a three-month average daily balance in accordance with the FCA Regulations and are calculated as follows (not all items below may be applicable to our Association):

- Common equity tier 1 ratio is statutory minimum purchased member stock, other required member stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to retirement, unallocated retained earnings as regulatorily prescribed, paid-in capital, less certain regulatory required deductions including the amount of allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required member stock held for a minimum of 5 years, allocated equities held for a minimum of 5 years, subordinated debt, and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for credit losses subject to certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- Permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings as regulatorily prescribed, paid-in capital, subordinated debt, and preferred stock subject to certain limitations, less certain allocated and purchased investments in other System institutions divided by PCR risk-adjusted assets.
- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.
- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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.

## Description of Equities

The following represents information regarding classes and number of shares of stock and participation certificates outstanding. All shares and participation certificates are stated at a $5.00 par value.

| | Number of Shares | | |
|---|---|---|---|
| As of December 31 | **2020** | 2019 | 2018 |
| Class B common stock (at-risk) | **2,319,311** | 2,364,225 | 2,455,081 |
| Class E participation certificates (at-risk) | **67,943** | 65,878 | 62,380 |

Under our bylaws, we are also authorized to issue Class C and Class D common stock. Each of these classes of common stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class B common stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance 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.

In the event of our liquidation or dissolution, according to our bylaws, any assets remaining after payment or retirement of all liabilities shall be distributed pro rata to all holders of stock.

In the event of stock impairment, losses will be absorbed by concurrent impairment of all classes of stock.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

## Patronage Distributions

We accrued patronage distributions of $64.0 million, $60.0 million, and $42.5 million at December 31, 2020, 2019, and 2018, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

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.

# NOTE 7: INCOME TAXES

## Provision for (Benefit from) Income Taxes

**Provision for (Benefit from) Income Taxes**

| (dollars in thousands)<br>For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ (866)** | $ (306) | $ (465) |
| State | **--** | -- | (1) |
| Total current | **$ (866)** | $ (306) | $ (466) |
| Deferred: | | | |
| Federal | **$ 927** | $ (829) | $ (1,220) |
| State | **63** | (206) | (79) |
| Total deferred | **990** | (1,035) | (1,299) |
| Provision for (benefit from) income taxes | **$ 124** | $ (1,341) | $ (1,765) |
| Effective tax rate | **0.1%** | (0.9%) | (1.0%) |

**Reconciliation of Taxes at Federal Statutory Rate to Provision for (Benefit from) Income Taxes**

| (in thousands)<br>For the year ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Federal tax at statutory rates | **$ 38,595** | $ 32,866 | $ 35,352 |
| State tax, net | **95** | (162) | (27) |
| Patronage distributions | **(5,313)** | (3,772) | (3,734) |
| Effect of non-taxable entity | **(32,367)** | (31,290) | (31,984) |
| Other | **(886)** | 1,017 | (1,372) |
| Provision for (benefit from) income taxes | **$ 124** | $ (1,341) | $ (1,765) |

## Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Comprehensive Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition.

**Deferred Tax Assets and Liabilities**

| (in thousands)<br>As of December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Allowance for loan losses | **$ 3,150** | $ 3,457 | $ 926 |
| Postretirement benefit accrual | **761** | 757 | 747 |
| Merger fair value adjustment | **11** | 235 | 278 |
| Net operating loss carryforward | **177** | 207 | -- |
| Previously taxed nonaccrual interest | **168** | -- | -- |
| Accrued incentive | **1,111** | 1,396 | 1,232 |
| Deferred fee income, net | **117** | -- | -- |
| Leasing related, net | -- | (2) | (35) |
| Accrued patronage income not received | **(725)** | (777) | -- |
| AgriBank 2002 allocated stock | **(1,124)** | (1,124) | (1,113) |
| Accrued pension asset | **(3,818)** | (3,325) | (2,101) |
| Depreciation | **76** | (38) | (211) |
| Other assets | **235** | 375 | 376 |
| Other liabilities | **(12)** | (44) | (17) |
| Deferred tax assets | **$ 127** | $ 1,117 | $ 82 |
| Gross deferred tax assets | **$ 5,806** | $ 6,427 | $ 3,559 |
| Gross deferred tax liabilities | **$ (5,679)** | $ (5,310) | $ (3,477) |

A valuation allowance for the deferred tax assets was not necessary at December 31, 2020, 2019, or 2018.

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $39.9 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $1.3 billion as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no material uncertain income tax positions at December 31, 2020. In addition, we believe we are no longer subject to income tax examinations for years prior to 2017.

# NOTE 8: EMPLOYEE BENEFIT PLANS

## Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2020 Annual Report.

The Farm Credit Foundations Plan Sponsor and Trust Committees provide oversight of the benefit plans. These governance committees are comprised of elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Plan Sponsor Committee is responsible for employer decisions regarding all benefit plans including retirement benefits. These decisions could include plan design changes, vendor changes, determination of employer subsidies (if any), and termination of specific benefit plans. Any action to change or terminate the retirement plan can only occur at the direction of the AgriBank District participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

**Pension Plan:** Certain employees participate in the AgriBank District Retirement Plan, a District-wide 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 certain eligible District 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 we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers 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.

**AgriBank District Retirement Plan Information**

| (in thousands)<br>As of December 31 | | **2020** | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Unfunded liability | **$** | **169,640** | $ | 220,794 | $ | 274,450 |
| Projected benefit obligation | | **1,563,421** | | 1,421,126 | | 1,272,063 |
| Fair value of plan assets | | **1,393,781** | | 1,200,332 | | 997,613 |
| Accumulated benefit obligation | | **1,426,270** | | 1,298,942 | | 1,125,682 |
| For the year ended December 31 | | **2020** | | 2019 | | 2018 |
| Total plan expense | **$** | **42,785** | $ | 36,636 | $ | 51,900 |
| Our allocated share of plan expenses | | **5,895** | | 5,151 | | 7,336 |
| Contributions by participating employers | | **90,000** | | 90,000 | | 90,000 |
| Our allocated share of contributions | | **12,561** | | 12,776 | | 12,631 |

The unfunded liability 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 accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The 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 their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Benefits paid to participants in the District were $70.9 million in 2020. 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 District employer contributions expected to be paid into the pension plan during 2021 is $90.0 million. Our allocated share of these pension contributions is expected to be $12.8 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

**Nonqualified Retirement Plan:** We also participate in the District-wide nonqualified defined benefit Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

**Pension Restoration Plan Information**

| (in thousands)<br>As of December 31 | | **2020** | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Our unfunded liability | **$** | **12,157** | $ | 8,551 | $ | 8,586 |
| For the year ended December 31 | | **2020** | | 2019 | | 2018 |
| Our allocated share of plan expenses | **$** | **857** | $ | 1,006 | $ | 997 |
| Our cash contributions | | **1,636** | | 1,393 | | 1,036 |

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including 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 their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

**Retiree Medical Plans:** District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plans. The anticipated costs of these benefits are accrued during the period of the employee's active status. Net periodic benefit cost is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. Postretirement benefit costs related to the retiree medical plans were not considered material for any of the years presented. Our cash contributions were equal to the benefits paid.

**Defined Contribution Plans**

We participate in a District-wide defined contribution plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2.0% and 50 cents on the dollar on the next 4.0% on both pre-tax and post-tax contributions. The maximum employer match is 4.0%. For employees hired after December 31, 2006, we contribute 3.0% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6.0% on both pre-tax and post-tax contributions. The maximum employer contribution is 9.0%.

We also participate in a District-wide Nonqualified Deferred Compensation Plan. Eligible participants must meet one of the following criteria: certain salary thresholds as determined by the IRS, are either a Chief Executive Officer or President of a participating employer, or have previously elected pre-tax deferrals in 2006 under predecessor nonqualified deferred compensation plans. Under this plan the employee may defer a portion of his/her salary, bonus, and other compensation. Additionally, the plan provides for supplemental employer matching contributions related to any compensation deferred by the employee that would have been eligible for a matching contribution under the defined contribution plan if it were not for certain IRS limitations.

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $3.6 million, $3.2 million, and $2.8 million in 2020, 2019, and 2018, respectively. These expenses were equal to our cash contributions for each year.

## NOTE 9: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be 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 other persons. In our opinion, none of these loans outstanding at December 31, 2020, involved more than a normal risk of collectability.

**Related Party Loans Information**

| (in thousands)<br>As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Total related party loans | **$ 40,869** | $ 40,947 | $ 42,229 |
| For the year ended December 31 | **2020** | 2019 | 2018 |
| Advances to related parties | **$ 72,026** | $ 39,273 | $ 30,636 |
| Repayments by related parties | **66,648** | 38,911 | 23,360 |

The related parties can be different each year end primarily due to changes in the composition of the Board of Directors and the mix of organizations with which such persons may be associated. Advances and repayments on loans in the preceding chart are related to those considered related parties at each respective year end.

As discussed in Note 5, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income, was paid to AgriBank.

Total patronage received from AgriBank was $50.0 million, $45.2 million, and $40.4 million in 2020, 2019, and 2018, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2020 and 2018 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $0.5 million, $0.6 million, and $0.6 million in 2020, 2019, and 2018, respectively.

Refer to Note 3 for information on participations sold to AgriBank and Note 4 for stock investment in AgriBank information.

As of December 31, 2020, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased tax reporting and insurance services from AgriBank. These services are now offered by SunStream. We also purchase human resource, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). SunStream and Foundations are both System service corporations within the AgriBank District. In addition to the services we purchase from AgriBank, SunStream, and Foundations, we also hold an investment in AgriBank and Foundations.

Our customer relationship, reporting, internet, network security, loan accounting, loan origination, and general ledger systems are provided by Farm Credit Financial Partners, Inc. (FPI), a System service corporation, which provides technology and other operational services to its owners. In addition, we hold an equity investment in FPI.

**Additional Related Party Information**

| (in thousands)<br>As of December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Investment in AgriBank | **$** | **212,294** | $ | 201,655 | $ | 184,727 |
| Investment in AgDirect, LLP | | **4,015** | | 451 | | -- |
| Investment in Foundations | | **80** | | 80 | | 80 |
| Investment in FPI | | **3,531** | | 3,433 | | 3,962 |
| For the year ended December 31 | | **2020** | | 2019 | | 2018 |
| AgriBank District purchased services | **$** | **936** | $ | 980 | $ | 1,049 |
| FPI purchased services | | **11,592** | | 10,518 | | 13,364 |

## NOTE 10: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding, which may not be reflected in the Consolidated Financial Statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these Consolidated Financial Statements, our management team was not aware of any material actions. However, management cannot ensure that such actions or other contingencies will not arise in the future.

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the 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 loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2020, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $2.9 billion. Additionally, we had $47.4 million of issued standby letters of credit as of December 31, 2020.

Commitments to extend credit and letters of credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend credit and letters of credit remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit and letters of credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. Certain letters of credit may have recourse provisions that would enable us to recover from third parties amounts paid under guarantees, thereby limiting our maximum potential exposure. The credit risk involved in issuing these financial instruments is essentially the same as that involved in extending loans to borrowers and we apply the same credit policies. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on management's credit evaluation of the borrower.

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). As of December 31, 2020, our total commitment is $14.0 million of which $3.2 million is unfunded, with varying commitment end dates through November 2023. Certain commitments may have an option to extend under certain circumstances.

## NOTE 11: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three input levels that may be used to measure fair value. Refer to Note 2 for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2020, 2019, or 2018.

### Non-Recurring

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis.

**Assets Measured at Fair Value on a Non-Recurring Basis**

| (in thousands)<br>**As of December 31, 2020** | Fair Value Measurement Using | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Level 1 | | Level 2 | | Level 3 | | Total Fair Value |
| Impaired loans | **$** | **--** | **$** | **--** | **$** | **601** | **$** | **601** |
| Other property owned | | **--** | | **--** | | **--** | | **--** |

| As of December 31, 2019 | Fair Value Measurement Using | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Level 1 | | Level 2 | | Level 3 | | Total Fair Value |
| Impaired loans | $ | -- | $ | -- | $ | 5,921 | $ | 5,921 |
| Other property owned | | -- | | -- | | 147 | | 147 |

| As of December 31, 2018 | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | $ -- | $ -- | $ 8,339 | $ 8,339 |
| Other property owned | -- | -- | 285 | 285 |

**Valuation Techniques**

**Impaired Loans:** Represents the carrying amount of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they are classified as Level 3.

**Other Property Owned:** Represents the fair value of foreclosed assets measured based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses observable market-based information, they are classified as Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the property and other matters, they are classified as Level 3.

## NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 1, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2020 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

# DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

*AgCountry Farm Credit Services, ACA*
*(Unaudited)*

## Description of Business

General information regarding the Association is incorporated herein by reference from Note 1 to the Consolidated Financial Statements in this Annual Report.

The description of significant business developments, if any, is incorporated herein by reference from the Management's Discussion and Analysis section of this Annual Report.

## Description of Property

**Property Information**

| Location | Description | Usage |
|---|---|---|
| Ada, MN | Owned | Branch |
| Alexandria, MN | Owned | Branch |
| Antigo, WI | Owned | Branch |
| Cavalier, ND | Owned | Branch |
| Cooperstown, ND | Leased | Branch |
| Crookston, MN | Owned | Branch |
| Detroit Lakes, MN | Owned | Branch |
| Devils Lake, ND | Owned | Branch |
| Elbow Lake, MN | Owned | Branch |
| Fargo, ND | Owned | Headquarters/Branch |
| Fergus Falls, MN | Owned | Branch |
| Fosston, MN | Owned | Branch |
| Graceville, MN | Owned | Branch |
| Grafton, ND | Owned | Branch |
| Grand Forks, ND | Owned | Branch |
| Hallock, MN | Owned | Branch |
| Hillsboro, ND | Owned | Branch |
| Jamestown, ND | Owned | Branch |
| LaMoure, ND | Owned | Branch |
| Langdon, ND | Owned | Branch |
| Lisbon, ND | Owned | Branch |
| Litchfield, MN | Leased | Branch |
| Madison, MN | Owned | Branch |
| Marshall, MN | Owned | Branch |
| Marshfield, WI | Owned | Branch |
| Medford, WI | Owned | Branch |
| Morris, MN | Owned | Branch |
| Olivia, MN | Owned | Branch |
| Redwood Falls, MN | Owned | Branch |
| Roseau, MN | Owned | Branch |
| St. Louis Park, MN | Leased | AgCountry CFG |
| Stevens Point, WI | Owned | Branch |
| Thief River Falls, MN | Leased | Branch |
| Thorp, WI | Owned | Branch |
| Valley City, ND | Owned | Branch |
| Wahpeton, ND | Owned | Branch |
| Warren, MN | Owned | Branch |
| Wausau, WI | Owned | Branch |
| Willmar, MN | Owned | Branch |

## Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2020.

## Additional Regulatory Capital Disclosure

**Regulatory Capital Ratios Pursuant to FCA Regulation 620.5**

| As of December 31 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Permanent capital ratio | 16.6% | 16.2% | 15.8% | 16.6% |
| Total surplus ratio | 16.5% | 16.0% | 15.7% | 16.4% |
| Core surplus ratio | 16.5% | 16.0% | 15.7% | 16.4% |

Refer to the Consolidated Five-Year Summary of Selected Financial Data at the beginning of this Annual Report for capital ratio calculations for the past five years.

## Description of Capital Structure

Information regarding our capital structure is discussed in Note 6 to the Consolidated Financial Statements in this Annual Report.

## Description of Liabilities

Information regarding liabilities is discussed in Notes 5, 6, 7, 8, and 10 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

## Selected Financial Data

The Consolidated Five-Year Summary of Selected Financial Data is presented at the beginning of this Annual Report.

## Management’s Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the Management's Discussion and Analysis section of this Annual Report.

## Board of Directors

Our Board of Directors is organized into the following committees to carry out Board responsibilities:

- The **Audit Committee** fulfills oversight responsibilities in relation to the quality of financial reporting and internal controls including those relating to accounting and reporting practices of the Association; those relating to the internal and external auditor; and to serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public. The Committee also oversees the adequacy of management’s actions with respect to recommendations arising from auditing activities.

- The **Human Resources and Compensation Committee** assists the Board of Directors in fulfilling its responsibilities concerning evaluation, development, and compensation of the CEO. The Committee reviews and approves the overall compensation policy and programs for senior officers and reviews compensation programs for all other Association employees. The Committee also provides overall direction and/or recommendations concerning benefit programs and other human resource areas.

- The **Governance and Strategy Committee** addresses corporate governance issues and continuing efforts to strengthen and renew the Board of Directors and provides oversight of long-term strategy direction. The Committee assists the Board of Directors in fulfilling its fiduciary responsibilities relating to the director nomination and election process, membership representation, Board of Directors education and development, policies, bylaws, and standards of conduct/ethics development and review. Committee members also identify, attract, and recommend appointed director candidates as openings occur. The Committee also assists the Board of Directors in fulfilling its oversight responsibilities relating to long-term strategy and strategic direction for the Association, including risk and opportunities relating to such strategy and its alignment with the mission of the Farm Credit System.

- The **Risk Management Committee** held its first meeting in January 2021. The Committee was created to align with industry best practice, and assists the full board in overseeing the integration of risk management in our organization through a formal enterprise risk management process. The Committee monitors the risk framework of the organization, promotes effective management of all risks, and fosters the establishment and maintenance of an effective risk culture throughout the organization.

**Board of Directors as of December 31, 2020, including business experience during the last five years**

| Name | Term | Principal occupation and other business affiliations |
|---|---|---|
| **Edward J. Hegland**<br>Board Chair | 2020 - 2025 | **Principal occupation:**<br>Self-employed grain farmer<br>**Other affiliations:**<br>Director: AgriBank District Farm Credit Council, a trade association representing the AgriBank District |
| **Greg Sabolik**<br>Board Vice Chair | 2017 - 2021 | **Principal occupation:**<br>Self-employed grain and dairy farmer<br>President: Bred and Butter Dairy<br>Vice President: Sabolik Brothers, a grain farm |
| **Leif Aakre** | 2019 - 2023 | **Principal occupation:**<br>Self-employed grain farmer |
| **Suzanne Allen**<br>Appointed Outside Director<br>Financial Expert | 2019 - 2023 | **Principal occupation:**<br>President of Allen CFO Services, a consulting company (May 2020 to present)<br>CFO of Unity Holdings, Inc., a holding company (May 2019-April 2020)<br>CFO of Compudyne, a technology company (September 2016-May 2019)<br>VP and Treasurer of Otter Tail Corporation, a diversified publicly traded company (June 2016-August 2016; May 2015-January 2016)<br>VP Finance and Accounting of TO Plastics, Thermoformed Products and Packaging Solutions Company (February 2016-May 2016) |
| **Justin Dagen** | 2018 - 2022 | **Principal occupation:**<br>Self-employed grain and sugar beet farmer and certified seed potato grower |
| **Kurt Elliott** | 2020 - 2024 | **Principal occupation:**<br>Self-employed grain and livestock farmer<br>**Other affiliations:**<br>Commissioner: Traill County Commission, a political subdivision<br>Director: Lake Agassiz Regional Development Board, a nonprofit economic development organization |
| **Mark Ellison** | 2020 - 2024 | **Principal occupation:**<br>Self-employed grain farmer<br>President: Ellison Farm, Inc.<br>General Partner: Ellison Farm Ltd. Partnership<br>**Other affiliations:**<br>Director: AgriBank District Farm Credit Council, a trade association representing the AgriBank District<br>Director: Farm Credit Council, a trade association representing the Farm Credit System<br>Director: Farm Credit Council Services, Inc. (FCCS), an education and insurance company |
| **Scott Gerbig** | 2017 - 2021 | **Principal occupation:**<br>Self-employed dairy farmer |
| **James Jarvis** | 2019 - 2023 | **Principal occupation:**<br>Self-employed grain, timber, and hay farmer<br>Manager of a seasonal vegetable plant distribution and sales operation<br>Owner of a campground<br>**Other affiliations:**<br>Board Member: Waushara County Human Services, a county department that provides human services to local residents<br>Committee Member: Mt. Morris Township Land Use Committee, a political subdivision |
| **Michael Long** | 2017 - 2021 | **Principal occupation:**<br>Self-employed grain and livestock farmer |
| **Greg Nelson** | 2018 - 2022 | **Principal occupation:**<br>Self-employed grain farmer |
| **William Oemichen**<br>Appointed Outside Director | 2017 - 2021 | **Principal occupation:**<br>Senior Research Fellow in Food Systems Security and Preparedness, University of Wisconsin-Madison (2018-present)<br>Governance Consultant to Alberta Community and Cooperative Association and British Columbia<br>Co-op Association (2018-present)<br>Director, Office of Preparedness & Emergency Health Care, Wisconsin Department of Health Services (2016-2017)<br>**Other affiliations:**<br>Treasurer: Group Health Cooperative of South Central Wisconsin, a health care insurance company<br>Board of Trustees Chair: $6.5 billion Wisconsin College Savings Program state 529<br>Board Member: Slipstream, formerly SeventhWave, an energy conservation company<br>Director: Farm Credit Council Services, Inc. (FCCS), an education and insurance company<br>Board Member: U.S. Selective Service Board for Wisconsin, U.S. Government Agency<br>Board Member/Vice President: New Glarus Board of Education, K-12 primary education<br>Principal: Jahn Research Group, national security research |

| Name | Term | Principal occupation and other business affiliations |
| --- | --- | --- |
| **Lynn Pietig** | 2019 - 2023 | **Principal occupation:**<br>Owner of Pietig Book-Works, an accounting and tax practice<br>Self-employed grain and livestock farmer<br>**Other affiliations:**<br>Treasurer: Morgan Memorial Foundation Inc., a nursing home and assisted living facility |
| **Curtis Trost** | 2020 - 2024 | **Principal occupation:**<br>Self-employed grain farmer<br>**Other affiliations:**<br>President: Curtis Trost Farming, Inc.<br>Board Vice Chairperson: Serenity Suites Senior Living, an assisted living and memory care facility |
| **Mary Kay Van Der Geest** | 2018 - 2022 | **Principal occupation:**<br>Self-employed dairy farmer<br>**Other affiliations:**<br>Advisor of Van Der Geest Dairy Cattle, a dairy and cropping farming operation<br>Advisor of Van Der Geest Maine Dairy Inc., a dairy farming operation<br>Advisor of Van Der Geest Dairy Sales, a cattle sales organization |
| **Dale Zahradka** | 2018 - 2022 | **Principal occupation:**<br>Self-employed grain farmer |
| **Michael Zenker** | 2019 - 2023 | **Principal occupation:**<br>Self-employed grain farmer<br>Seed dealer |

Pursuant to our bylaws, directors are paid for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for expenses incurred in connection with such meetings or assignments. In 2020, each director received an annual base retainer of $41,700. In addition, the Board Chairperson received an additional $8,400, the Vice Chairperson and the Audit Committee Chairperson received an additional $5,400, the Human Resources and Compensation Committee Chairperson and Governance Committee Chairperson received an additional $3,000, and each Audit Committee member, other than the Chairperson, received an additional $1,500. All retainer fees were paid monthly. All directors also received travel time compensation of $0.75 per mile for regular meetings.

Information regarding compensation paid to each director who served during 2020 follows:

| | Number of Days Served | | | Compensation | | |
| --- | --- | --- | --- | --- | --- | --- |
| Name | Board Meetings | Other Official Activities | On a Committee | paid for service on a Board Committee | Name of Committee | Total Compensation Earned in 2020 |
| Leif Aakre | 11.75 | 15.50 | 2.25 | $ - | Governance | $ 42,407 |
| Suzanne Allen | 11.75 | 7.15 | 4.00 | 5,075 | Audit | 47,864 |
| Justin Dagen | 11.75 | 15.50 | 3.75 | 1,500 | Audit | 43,425 |
| Kurt Elliott | 11.75 | 16.50 | 4.00 | 1,500 | Audit | 43,200 |
| Mark Ellison | 11.75 | 14.00 | 1.50 | 3,000 | Compensation | 45,640 |
| Scott Gerbig | 11.75 | 8.25 | 2.25 | - | Governance | 44,396 |
| Jack Hansen* | 9.25 | 4.75 | 2.75 | 1,000 | Audit | 28,800 |
| Edward J. Hegland | 11.75 | 15.50 | 2.25 | 8,400 | Governance | 51,228 |
| James Jarvis | 11.75 | 11.75 | 1.50 | - | Compensation | 43,950 |
| Michael Long | 11.75 | 8.25 | 4.00 | 1,500 | Audit | 43,983 |
| Greg Nelson | 11.75 | 8.25 | 2.25 | - | Governance | 42,180 |
| William Oemichen | 11.75 | 7.25 | 1.50 | - | Compensation | 43,631 |
| Lynn Pietig | 11.25 | 11.50 | 3.75 | 1,500 | Audit | 44,772 |
| Greg Sabolik | 11.75 | 12.50 | 2.25 | 5,400 | Governance | 47,768 |
| Brad Sunderland* | 9.75 | 10.75 | 2.75 | 1,125 | Audit | 32,662 |
| Curtis Trost** | 2.00 | 3.00 | 1.25 | 375 | Audit | 10,808 |
| Mary Kay Van Der Geest | 10.75 | 8.25 | 1.50 | - | Compensation | 42,880 |
| Dale Zahradka | 11.75 | 9.25 | 2.25 | 3,000 | Governance | 45,712 |
| Michael Zenker | 11.75 | 7.25 | 1.50 | - | Compensation | 42,480 |
| | | | | | | $ 787,786 |

* No longer on the Board at December 31, 2020

** Elected to the Board in 2020

## Senior Officers

**Senior Officers as of December 31, 2020, including business experience during the last five years is as follows**

| Name and Position | Business experience and other business affiliations |
|---|---|
| **Marcus L. Knisely**<br>President and<br>Chief Executive Officer | **Business experience:**<br>President and Chief Executive Officer since 1998<br>**Other business interests:**<br>Board Chairperson of Farm Credit Financial Partners, Inc., a related entity discussed on page 10<br>Board member of Minnesota AgriGrowth Council, a non-profit organization representing the agriculture and food systems industry |
| **Rebecca A. Thibert**<br>Chief Financial Officer | **Business experience:**<br>Chief Financial Officer from October 2020 to present<br>Chief Technology Officer and Acting CFO from June 2020 to September 2020<br>EVP Strategic Technology from July 2017 to June 2020<br>VP Strategic Technology from June 2014 to June 2017 |
| **Kim Zeltinger**<br>Chief Credit Officer | **Business experience:**<br>Chief Credit Officer from August 2018 to present<br>Chief Credit Officer-Elect from June 2018 to July 2018<br>SVP of Credit from July 2017 to May 2018<br>VP of Credit from January 1999 to June 2017 |
| **Mark Rehovsky**<br>Chief Marketplace Officer | **Business experience:**<br>Chief Marketplace Officer from March 2012 to present |
| **Jeffrey A. Schmidt**<br>Chief Risk Officer | **Business experience:**<br>Chief Risk Officer from August 2018 to present<br>SVP Credit from July 2017 to July 2018<br>Chief Credit Officer, United FCS from July 2008 to June 2017 |
| **Randy Aberle**<br>EVP Agribusiness and Capital Markets | **Business experience:**<br>EVP Agribusiness and Capital Markets from November 2011 to present<br>**Other business affiliations:**<br>Board Chairperson for ProPartners Financial, a related alliance discussed on page 10 |
| **Jessica Fyre**<br>Chief Operations Officer and<br>General Counsel | **Business experience:**<br>Chief Operations Officer and General Counsel from October 2020 to present<br>EVP General Counsel from July 2013 to September 2020<br>**Other business affiliations:**<br>Board member of Farm Credit Financial Partners, Inc., a related entity discussed on page 10<br>Board member of AgriBank District Farm Credit Council, a trade association representing the AgriBank District |
| **Howard Olson**<br>SVP Government and<br>Public Affairs | **Business experience:**<br>SVP Government and Public Affairs from January 2020 to present<br>SVP Insurance and Communications from August 2016 to December 2019<br>SVP Financial Services from January 2007 to July 2016 |
| **Jeni Strand**<br>EVP Human Resources | **Business experience:**<br>EVP Human Resources from July 2017 to present<br>VP Human Resources from January 2008 to June 2017 |

## Senior Officer Compensation

**Compensation Risk Management:** We believe the design and governance of our CEO and senior officer compensation program is consistent with and promotes the accomplishment of our key business objective of ensuring sound risk management for the benefit of our shareholders. The philosophy underlying our program is to provide a total compensation package that attracts and retains highly qualified senior officers who are incented to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. The Human Resources and Compensation Committee of the Board of Directors has established a compensation program that focuses on achieving both annual and long-term business results that are consistent with the best interests of our shareholders. The design of our senior officer compensation program supports our goals through a set of checks and balances, including (1) a balanced mix of base and variable pay, (2) a balanced mix of short-term and long-term incentives, (3) a balanced use of financial, credit, and marketplace performance measures that are risk-adjusted where appropriate, and (4) individual pay awards based on results. The program is further designed to (1) reward successful business year results through annual short-term incentives, (2) foster the advancement of strategic business plans and goals and long-term financial growth and stability through the long-term incentives; and (3) contribute to the retention of the CEO and senior officers.

**Elements of Compensation:** The CEO and senior officers are compensated with salary and variable pay in the form of direct cash, short-term incentives, long-term incentives, as well as retirement plans generally available to all employees. The variable pay and retirement plans are not available to part-time employees working less than an average of 20 hours per week. Our Board of Directors determines the appropriate balance of base salary, short-term incentives, and long-term incentives, which are intended to be competitive.

**Base Salary:** The CEO and senior officer base salaries reflect the market, individual performance results, officer's experience, and level of responsibility. Association performance relative to objectives established in the annual business plan is reflected in base salary adjustments, consistent with the responsibility of each position. The CEO and each senior officer are compensated consistent with achievement of individual and Association key business objectives. The base salary for the CEO is approved by our Board of Directors and the base salaries for other senior officers are approved by the CEO subject to the terms of the compensation program approved by the Human Resources and Compensation Committee of the Board of Directors. Salaries are also subject to adjustment based on changes in responsibilities and/or competitive market conditions.

**Long-term Incentives:** Starting in 2019, certain senior officers, including the CEO, are eligible to receive long-term incentive compensation through a Long-term Incentive Plan. The Long-term Incentive Plan defers payment of compensation during a three year plan cycle. The payout of the long-term incentive award occurs at the end of the three year plan cycle and is conditioned upon successful performance of the participant(s) and the Association exceeding the threshold of plan performance metrics. The performance metrics align with long-term performance objectives and goals and are established by the AgCountry Board Human Resources and Compensation Committee and approved by the Board of Directors. Plan participation is contingent on signing a non-solicitation and non-disclosure agreement.

**Short-term Incentives:** The CEO and senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall Association performance provides a balanced approach that includes: pre-tax net income, efficiency ratio, credit administration rating, and marketplace measured by average daily balance change for loans. Additionally, criteria related to personal performance include attainment of personal objectives and individual performance ratings. The CEO and senior officer short-term incentive is based 70% on the overall Association performance and 30% on individual performance measures. The Board of Directors establishes the CEO's individual performance measures and ratings. The CEO establishes senior officer performance measures and ratings. Incentives are calculated after the end of the plan year (the plan year is the calendar year) and are paid within 90 days of year end. In addition, any employee who achieves performance levels above and beyond the criteria in the short-term incentive plan may be awarded an additional bonus as approved by their supervisor, the EVP Human Resources, and the CEO, or by the Board of Directors if the bonus is for the CEO.

**Retirement Plans:** We have various post-employment benefit plans, which are generally available to all Association employees, including the CEO and senior officers, based on dates of service to the Association and are not otherwise differentiated by position, unless specifically stated. Information regarding the post-employment benefit plans is included in Notes 2 and 8 of this Annual Report.

**Other Components of Compensation:** Additionally, compensation associated with the company vehicle program, group term life insurance premiums, disability insurance premiums, years of service awards for retirees, or other taxable reimbursements may be made available to the CEO and senior officers based on job criteria or similar plans available to all employees.

**Compensation to the CEO and Senior Officers**

| (in thousands) Name | Year | Salary | Variable Pay | Deferred/ Perquisites | Long-Term Incentive[1] | Other | Total |
|---|---|---|---|---|---|---|---|
| Marcus L. Knisely, President and CEO | **2020** | **$ 676** | **$ 406** | **$ 12** | **$ 214** | **$ 1,432** | **$ 2,740** |
| Marcus L. Knisely, President and CEO | 2019 | 650 | 415 | 71 | 105 | 1,494 | 2,735 |
| Marcus L. Knisely, President and CEO | 2018 | 625 | 363 | 7 | -- | 444 | 1,439 |
| Aggregate Number of Senior Officers, excluding CEO | | | | | | | |
| Nine[2] | **2020** | **$ 2,126** | **$ 932** | **$ 20** | **$ 362** | **$ 3,260** | **$ 6,700** |
| Ten[3] | 2019 | 2,299 | 898 | 21 | 178 | 5,180 | 8,576 |
| Eleven[4] | 2018 | 2,393 | 878 | 25 | -- | 1,512 | 4,808 |

[1]Long-Term Incentive Plan began in 2019. For the year 2019, the long-term incentive amounts earned during 2019 have been added to that year's compensation.

[2]Includes one Senior Officer who resigned in June 2020.

[3]Includes one Senior Officer that retired in August 2019.

[4]Includes one Senior Officer that retired and two new Senior Officers in 2018.

Members may request information on the compensation to the individuals included in the preceding table during 2020.

The amount in the "Other" category in the preceding table primarily includes:

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.
- Amounts related to retention, retirement, and in 2020, a one-time payout of unused vacation hours.

No tax reimbursements are made to the CEO and senior officers.

The value of the pension benefits increased from December 31, 2019, to December 31, 2020, primarily due to the decrease in interest rates year over year.

The value of the pension benefits was also impacted to a lesser extent by the accumulation of an additional year of credited service by plan participants and updates to actuarial assumptions.

**Pension Benefits Attributable to the CEO and Senior Officers**

| (dollars in thousands)<br>**2020**<br>Name | Plan | Years of Credited Service | Present Value of Accumulated Benefits | Payments Made During the Reporting Period |
|---|---|---|---|---|
| Marcus L. Knisely, President and CEO | AgriBank District Retirement Plan | **42.4** | **$ 3,777** | **$ --** |
| | AgriBank District Pension Restoration Plan | **42.4** | **4,050** | **--** |
| Aggregate Number of Senior Officers, excluding CEO | | | | |
| Six | AgriBank District Retirement Plan | **31.3** | **$ 13,209** | **$ --** |
| Three | AgriBank District Pension Restoration Plan | **38.5** | **618** | **--** |

Senior officers in the above table includes one senior officer who resigned in June 2020.

The change in composition of the aggregate senior officers can have a significant impact on the calculation of the accumulated pension benefits.

Effective January 1, 2007, the AgriBank District Retirement Plan was closed to new employees. Therefore, any employee starting employment with the AgriBank District after that date is not eligible to be in the plan.

The AgriBank District Pension Restoration Plan restores retirement benefits to certain eligible, highly compensated employees and senior officers that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits.

## Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 9 to the Consolidated Financial Statements in this Annual Report.

## Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at:

Post Office Box 6020
Fargo, ND 58108-6020
(701) 282-9494
www.agcountry.com

The total directors' travel, subsistence, and other related expenses were $0.2 million, $0.3 million, and $0.4 million in 2020, 2019, and 2018, respectively.

## Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2021, or at any time during 2020.

## Member Privacy

The FCA Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our Association or our members not normally contained in published reports or press releases.

## Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2020 were $0.3 million. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred $7,000 for tax services and $3,000 for non-audit services related to accounting for customer stock which was approved by the audit committee.

## Financial Statements

The Report of Management, Report on Internal Control over Financial Reporting, Report of Audit Committee, Report of Independent Auditors, Consolidated Financial Statements, and Notes to Consolidated Financial Statements are presented prior to this portion of the Consolidated Financial Statements in this Annual Report.

## Our Commitment to Serving Young, Beginning and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

# Our Commitment to Serve
# **Young, Beginning and Small Farmers**

**(Unaudited)**

**Serving our young, beginning and small farmer (YBSF/YBF) customers is a priority at AgCountry.**

### Young, Beginning and Small Farmers Defined

- **Young Farmer:** A farmer or rancher who is 35 years of age or less as of the loan transaction date.
- **Beginning Farmer**: A farmer or rancher who has 10 years or less of farming or ranching experience as of the loan transaction date.
- **Small Farmer:** A farmer or rancher who normally generates less than $250,000 in annual gross sales of agricultural products.

### Our Mission for Serving Young, Beginning and Small Farmers

Our mission is to serve agriculture and rural America.

- **For young, beginning farmers, this means**: We support the successful entry of young and beginning farmers into production agriculture through specialized credit underwriting, educational/informational programs and other activities.
- **For small farmers, this means**: We provide convenient, easy and cost-effective access to our products and services at competitive prices.

### Our Objectives for Serving Young, Beginning Farmers

1. To identify individuals with the personal management skills and drive to build a full-scale, full-time operation.
2. To apply alternative credit standards to the young, beginning farmer market segment, invest the specialized skills of our staff in serving this segment and provide subsidies for interest rates and financial services.
3. To closely monitor the business transition plans of our young, beginning farmers with growing and larger operations to ensure that from a customer value, service and monitoring standpoint, we are positioned with the next generation of owner/operators.

### Our Progress in Achieving These Objectives

AgCountry markets to young and beginning farmer prospects. We monitor the farm business transition plans of customers and prospects, including offering succession and retirement planning consulting. Customer information for underwriting is streamlined and often relies on credit scoring tools. Our young and beginning credit underwriting allows exceptions to established underwriting standards, provides for defined interest rate pricing exceptions and subsidies on eligible financial services. Scholarships and numerous educational opportunities are also provided.

### Our Objectives for Serving Small Farmers

1. To establish small farmer delivery and processing systems that are streamlined and efficient using technology and branch offices to achieve cost-effective access and competitive prices.
2. To pursue decision-making methodology that streamlines the credit process, along with processes that maximize disbursement and payment alternatives (such as revolving loans, scorecards, online loan applications, purchase or debit cards and online banking).
3. To identify customers within the small farmer segment that have the capacity and the goal to become a larger farm operation and provide them with more loan officer and financial services interaction that brings us closer to the people-intensive portion of our value proposition provided for larger, full-scale farm operations.

**Our Progress in Achieving These Objectives**

AgCountry has 38 offices to serve this segment as well as access through dealer retail financing. Customer information for underwriting is streamlined and often relies on credit scoring tools. All financial services are made available and we provide additional support to those units with a business expansion strategy.

**Quantitative Goals and Status [Annual, Three-Year and Actual]**

**Goal**: 25% of producer loan customers will be coded young or beginning.

- **Status**: Annual: 25%
- **Three-Year**: 25%
- **Actual**: 22.6%

**Goal**: 25% of all producer relationships will be young or beginning.

- **Status**: Annual: 25%
- **Three-Year**: 25%
- **Actual**: 26.4%

**Goal**: YBSF volume will remain above 35% of ongoing producer credit branch operations volume.

- **Status**: Annual: 35%
- **Three-Year**: 35%
- **Actual**: 32.1%

**Goal**: Educational/informational opportunities provided to YBFs annually.

- **Status**: Annual: 350
- **Three-Year**: reduces to 300 in year three
- **Actual**: 216 [Goal affected by restrictions imposed due to COVID-19 pandemic.]

**Goal**: The YBF portfolio will be maintained at or above 85% acceptable credit quality. The small farmer portfolio will be maintained at or above 94% acceptable credit quality.

- **Status**: Annual: 85% and 94%
- **Three-Year**: 85% and 94%
- **Actual**: Young and Beginning: 98.1% | Small: 99.2%

**Goal**: 25% of our new loan volume will go to YBFs annually.

- **Status**: Annual: 25%
- **Three-Year**: 25%
- **Actual**: 25.6%

**Goal**: Small farmer customer numbers will be greater than 50% of all producer loan and lease relationships.

- **Status**: Annual: 50%
- **Three-Year**: 50%
- **Actual**: 44.4%

### Qualitative Goals and Status

**Goal**: The capacity to use Farm Services Agency (FSA) and state programs will be maintained as a tool for a YBF operator.

- **Status**:
    - FSA assisted in providing 22 YBF with new loans.
    - PPP Loans totaling 303 for YBF.

**Goal**: Succession and retirement/transition planning consultative services will be provided to young and beginning farmers.

- **Status**: These services were provided to 100 YBF.

**Goal**: AgCountry's full spectrum of financial services will be made available to young and beginning farmers.

- **Status**:

| Services | Number Served |
|---|---|
| Tax | 2,698 |
| Farm Accounting | 1,027 |
| Succession & Retirement | 100 |
| Crop Insurance | 2,950 |

**Goal**: Educational and informational opportunities will be provided to young and beginning farmers.

- **Status**: The following educational and informational opportunities were provided to young and beginning farmers:
    - Marketing education workshop was held in January:
        - YBF registered: 51
        - North Dakota State University (NDSU) Fellows students registered: 14
    - Dr. David Kohl presented to 39 YBFs on February 19 at a YBF breakfast.
    - A Young Farmer Learning Conference Featuring Dr. David Kohl was held on February 13. This event was also live-streamed to six locations - 172 registered. Marketing education meetings topics included:
        - Risk & Opportunity Analysis meetings
        - Multi-Peril and Crop Insurance consultations
        - Succession & Retirement planning meetings
        - Farm Accounting update meetings
        - Pre-harvest meetings
        - FSA Guarantee loan counseling sessions
        - Marketing club presentations
    - The AgCountry Young Farmer Advisory Committee, consisting of 10 YBF families, met in January to discuss challenges and opportunities for young farm families.
    - YBF resources shared via social media.
    - Podcasts created to help YBF understand the borrowing process.
    - December Winter Forum meeting had 54 YBF in virtual attendence.

**Goal**: Focus group meetings will be held periodically with select groups of young and beginning or small farmers.

- **Status**: One meeting was held in March with two young, beginning or small farmers in attendance.

**Goal**: Financial and in-kind support will be provided to programs that foster the development of young farmers, such as 4H and FFA.

- **Status**:
  - More than $134,000 was donated to such programs, including 4H, FFA, Farm Management/Leadership Programs, Farm Safety camps and educational seminars offered through county Extension Service offices.
  - $5,049 in scholarships was awarded to YBF customers to attend the marketing education workshop in January.
  - $15,665 in scholarships was awarded to YBF customers to attend The Executive Program for Agricultural Producers (TEPAP) at Texas A&M University.
  - $35,000 in scholarships were awarded to 35 high school seniors pursuing careers in agriculture.
  - Scholarships of $15,000 were awarded to 15 North Dakota State University (NDSU) students in the Farm Credit Fellows program.
  - $10,000 in scholarships were awarded to 10 Upperclassmen in our Association Territory.
  - As part of the Risk and Trade Center Scholarship Endowment donation each year, a total of $4,320 in scholarships were paid out to seven students in 2020.

**Goal**: Information about special exceptions to credit standards, special pricing options and other services available to young and beginning farmers will be distributed through branch offices, trade shows and focus group meetings and our website.

- **Status**: This continues to be accomplished.

| Young, Beginning and Small Farmer Demographics in Our Service Area | Census 2012 | AgCountry Producer Loan and Lease Portfolio |
|---|---|---|
| 35 years of age or less | 7.8% | 17.72% |
| 10 years or less of experience farming | 14.5% | 22.01% |
| Farms less than $250,000 Value Farm Sales | 74.8% | 44.4% |

**Data Differences:**

- The age and farmer experience is as of the date of the ag census, while AgCountry compiled as of the date the loan was made.
- Small farmers is by farm entity from the ag census data, while AgCountry data is compiled as of the date of the loan and the total value of sales of closely related entities rather than individual entities.
- Census data reflects all farms whether they use debt or not. This reflects only 40.3% of farms have debt.
- Of the farms reporting to the Census report, 19.6% of the farms had sales less than $10,000.

**Safety and Soundness of the Program:**

Goals are established for loan quality of these customer segments. The association is well above these goals at this time. The Starting Gate program, which is a subset of the young and beginning farmer program, also limits the size of individual transactions and an overall dollar amount available for this program because of the increased risk.

# AgCountry FCS
# OFFICE LOCATIONS

## MINNESOTA

**Ada**
218-784-7263
800-450-3063

**Alexandria**
320-763-3184
800-450-3184

**Crookston**
218-281-1416
800-689-9373

**Detroit Lakes**
218-847-1645
800-224-1647

**Elbow Lake**
218-685-5311
800-450-5311

**Fergus Falls**
218-739-5221
800-757-5221

**Fosston**
218-435-1686
877-635-2311

**Graceville**
320-748-7294
800-450-7294

**Hallock**
218-843-3627
877-284-2835

**Litchfield**
320-693-7953
800-450-7953

**Madison**
320-598-7505
800-450-7505

**Marshall**
507-532-5751
800-450-5751

**Morris**
320-589-3881
800-450-3881

**Olivia**
320-523-1216
800-450-1216

**Redwood Falls**
507-637-8721
800-450-8721

**Roseau**
218-463-2766
888-290-2766

**Thief River Falls**
218-681-2304
877-787-3339

**Warren**
218-745-5144
800-642-6346

**Willmar**
320-235-1771
800-450-1771

## NORTH DAKOTA

**Cavalier**
701-265-8423
866-898-6221

**Devils Lake**
701-662-5356
800-422-3670

**Fargo**
701-235-9858
800-450-9858

**Fargo HQ**
701-282-9494
800-450-8933

**Grafton**
701-352-1651
800-819-1651

**Grand Forks**
701-775-3193
800-288-3982

**Hillsboro**
701-636-4842
800-450-4842

**Jamestown**
701-252-5242
800-450-5242

**LaMoure**
701-883-5291
800-520-5291

**Langdon**
701-256-2553
877-623-9582

**Lisbon**
701-683-4172
800-450-4172

**Valley City**
701-845-1751
800-900-1751

**Wahpeton**
701-642-8557
800-450-8557

## WISCONSIN

**Marshfield**
715-387-3765
800-324-5752

**Medford**
715-748-3270
800-324-5753

**Stevens Point**
715-344-1000
800-324-5754

**Thorp**
715-669-5911
800-324-5758

**Wausau/Antigo**
715-842-4631
800-324-5751

## AGCOUNTRY ONLINE SERVICES

855-402-7849

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