# Reframed PERSPECTIVES

## 2020 ANNUAL REPORT

FARM CREDIT
ILLINOIS
Helping Farm Families Succeed

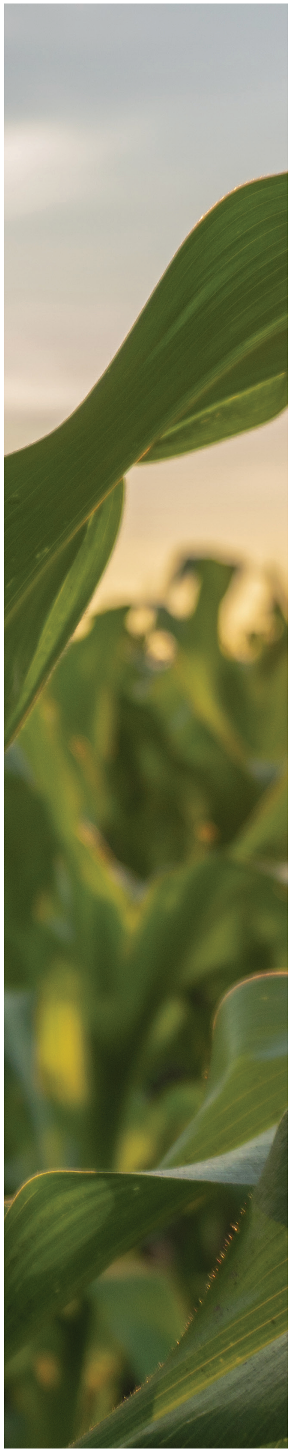
Farm Credit Illinois supports agriculture and rural communities and is **Helping Farm Families Succeed** today and tomorrow. A farmer-owned agricultural lending cooperative serving the southern 60 counties of Illinois, FCI provides constructive credit, crop insurance expertise, and Rural 1st® financing for the country life. Contact your local office for more information on farm and country living loans, crop insurance, and agricultural real estate appraisals.

**Cooperative Headquarters**
1100 Farm Credit Drive
Mahomet, IL 61853
217-590-2200

www.farmcreditIL.com

## Regional Office Locations

| | |
|---|---|
| **DECATUR** | 800-327-1105 |
| **EFFINGHAM** | 800-331-9825 |
| **HIGHLAND** | 800-281-1344 |
| **JACKSONVILLE** | 800-537-3088 |
| **JERSEYVILLE** | 800-537-3087 |
| **LAWRENCEVILLE** | 800-247-7953 |
| **MAHOMET** | 800-327-2141 |
| **MARION** | 800-398-7538 |
| **MT. VERNON** | 855-862-5280 |
| **PARIS** | 800-345-6258 |
| **RED BUD** | 800-261-3522 |
| **SHERMAN** | 800-475-6103 |
| **TAYLORVILLE** | 800-635-1057 |
| **WATSEKA** | 800-808-5431 |



# 2020 Reframed Perspectives

Reflecting on the year 2020 will forever surface a range of emotions. As the COVID-19 pandemic consumed the world's attention, it took focus to manage unexpected challenges and agility to adapt to new working and living environments. In many ways, navigating through the constantly changing landscape of 2020 required a reframed perspective.

Even through unpredictable circumstances, Farm Credit Illinois (FCI) maintained its time-tested strategy of focusing on credit quality, stable earnings, and growth – in that order. Credit quality remained consistent at 95.1% acceptable. FCI generated all-time high earnings of $88.1 million and welcomed a record number of more than 550 new members to the cooperative.

Contributing to FCI's earnings were the Association's collaborations and crop insurance team. Rural 1st® — FCI's newest collaboration – exceeded first-year expectations, closing $45.3 million in country life loans during 2020. AgDirect equipment financing showed an 85% increase in the number of new loans closed with $120.9 million in new volume. The Association also set a new crop insurance record by servicing nearly 1.4 million acres of MPCI coverage.

The cooperative's diverse revenue stream significantly subsidizes patronage and other member and marketplace programs. Thanks to the Association's overall financial performance, $28.4 million of cash patronage was distributed in June. And when the Board of Directors saw the growing needs in rural communities, they made two $100,000 donations to Feeding Illinois food banks in our service area on behalf of the cooperative membership.

In response to the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law in March 2020, a team of employees worked diligently to secure FCI's approval as a Small Business Administration lender and began processing Paycheck Protection Program (PPP) loans for members. In total, FCI processed 747 PPP loans.

Prioritizing the safety and health of members and employees, regional offices discovered new ways to effectively conduct business when FCI lobbies were closed. Although traditional member appreciation events couldn't be held, FCI delivered an Expression of Gratitude member gift as a safer alternative. In December, we kicked off virtual learning programs to continue providing members with information and strategies, equipping them for success.

Through the unchartered waters of the pandemic, FCI overcame obstacles to ensure business continuity. Our employees reaffirmed their dedication to **Helping Farm Families Succeed** by providing reliable, consistent credit and crop insurance expertise. As the year ended, the resiliency of farm families paid off as commodity prices rose and markets provided opportunities for greater profitability.

The lessons learned through this challenging year will serve farm families and the cooperative into the future. FCI is grateful to stand with you today and tomorrow – even as our perspectives of life and business are reframed. We wish you a safe, healthy, and successful 2021.

Sincerely,

Eric J. Mosbey
Chairperson of the Board

Aaron S. Johnson
President & CEO

# 2020 Highlights

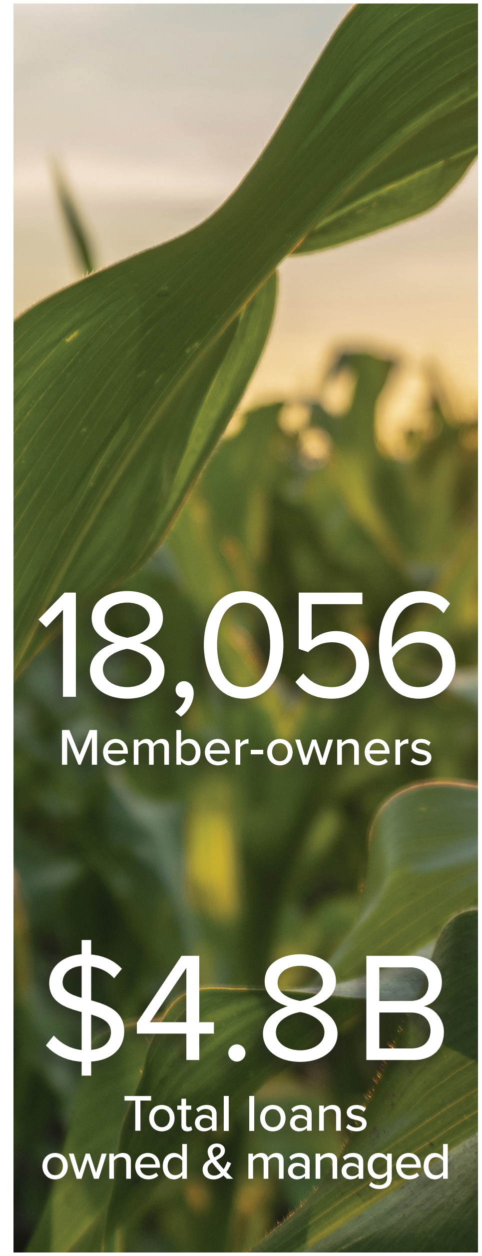
## BUSINESS RESULTS

| | 2020 | 2019 | Change |
|---|---|---|---|
| **Owned and Managed (O&M) Loans** | $4.794B | $4.474B | +7.2% |
| **Non-Adverse Credit Quality (O&M)** | 98.2% | 97.3% | +0.9% |
| **Multi-Peril Crop Insurance Premiums** | $42.8M | $44.0M | -2.7% |
| **Total Capital** | $1.063B | $1.018B | +4.4% |
| **Total Regulatory Capital** | 20.1% | 20.2% | -0.5% |
| **Net Earnings** | $88.1M | $75.4M | +16.8% |
| **Cash Patronage*** | $42.7M | $28.4M | +50.4% |

*Patronage is paid from the previous year's earnings. As of December 31, 2020, patronage of $42.7 M was declared, not yet paid.

Several ambitious and tangible goals and milestones were set five years ago as the cooperative created a 10-year strategic plan – Vision 2025. One significant goal is to reach $7 billion owned, managed, and collaborated volume.

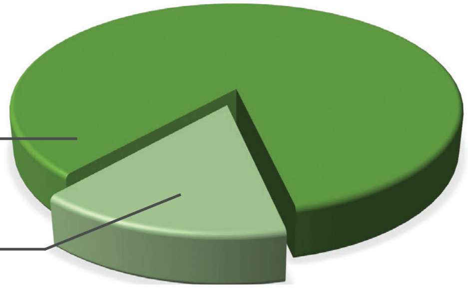
In July, FCI exceeded the **$5 BILLION VISION MILESTONE**.



## OWNED & MANAGED LOAN PORTFOLIO (as of 12/31)

**$4.065B**
FLCA Loan Volume (Real Estate)

**$728M**
PCA Loan Volume (Operating & Intermediate)



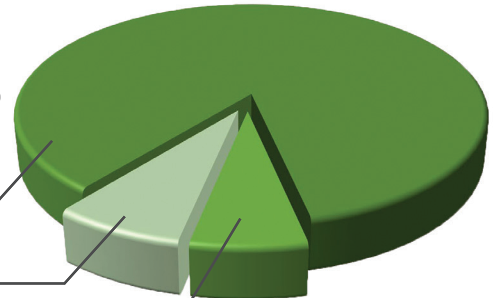
## OWNED, MANAGED, & COLLABORATED VOLUME (as of 12/31)

Year-over-year growth is 9.77%, or $462 million

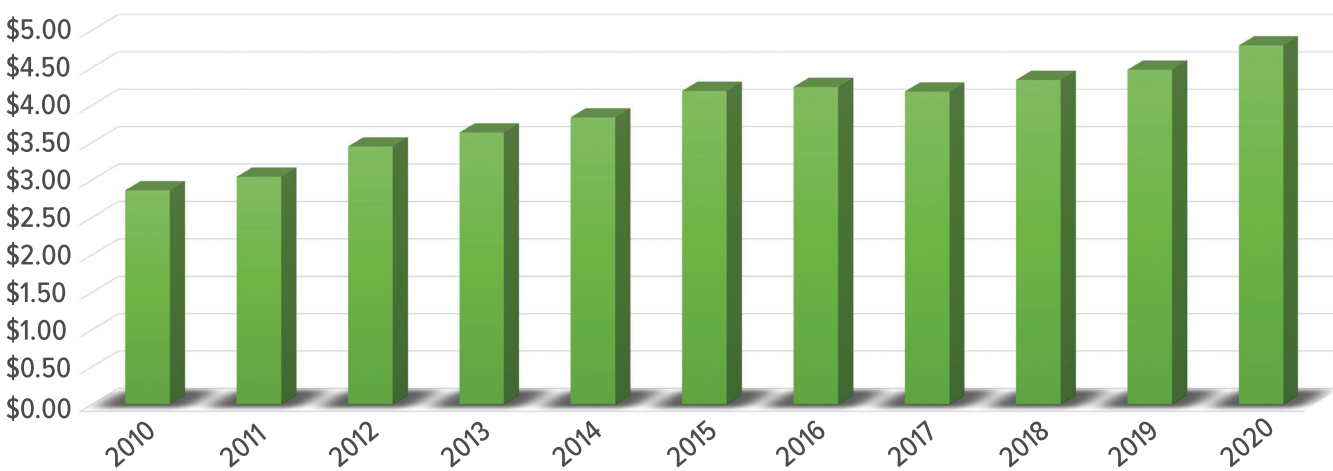
**$4.45B** Owned

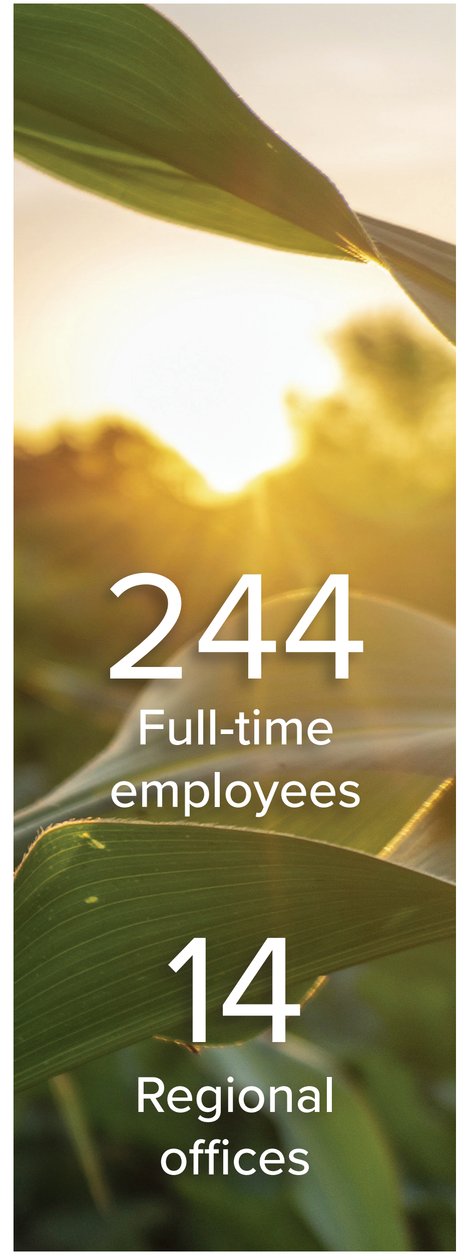
**$345M** Managed

**$393M** Collaborated



## TOTAL OWNED & MANAGED (in billions)



# 2021 Leadership

## BOARD OF DIRECTORS

Member-owners elect 12 peers to the board of directors and 2 outside directors are appointed – ensuring FCI carries out its cooperative mission (listed below by director region and county).

### REGION 1

**Wes  Durbin**
Shelby

**Adam Brown**
Macon

**Mike Carls**
Cass

**Joseph Pickrell**
Sangamon

### REGION 2

**Eric Mosbey**
Crawford
Chair

**David Haase**
Iroquois

**Steve Hettinger**
Champaign
Vice Chair

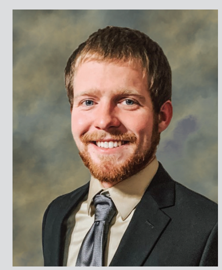
**Kevin Miller**
Jasper

### REGION 3

**Marc Bremer**
Massac

**Kent Brinkmann**
Clinton

**Lisa Helmink**
Clinton



**Evan Schuette**
Clinton

### OUTSIDE APPOINTED

**Michael Donohoe**
Champaign

**Anne Larocca**
Lake

## SENIOR MANAGEMENT

FCI's senior team sets strategic direction and protects the financial well-being of the Association.

**Aaron Johnson**, President & CEO; **Steve Carson**, Executive Vice President & Chief Risk Officer;
**Ryan Berg**, Senior Vice President (SVP) Chief Administrative Officer; **Kelly Loschen**, SVP Chief Financial Officer;
**Jackie Martinie**, SVP Chief Credit Officer; **Shaun Murray**, SVP Chief Operating Officer; **Bob Rhode**, SVP General Counsel

2021 Senior Management Team

L-R:
**Jackie Martinie**, **Bob Rhode**, **Aaron Johnson**, **Shaun Murray**, **Steve Carson**, **Ryan Berg**, **Kelly Loschen**

# CASH Patronage

In June 2020, FCI celebrated cooperative value with a second annual cash patronage distribution of $28.4 million. Patronage is distributed equitably to borrower-members based on the net interest margin contributions of their respective loans.

Cash patronage creates cooperative value for members and the marketplace, while FCI remains committed to providing low upfront interest rate pricing, a strong capital position for the future, and initiatives supporting members and local communities.

Low upfront interest rates & no lender fees at closing

Capitalizing for the future

FreshRoots young & beginning farmer support

Employee training, succession, & retention

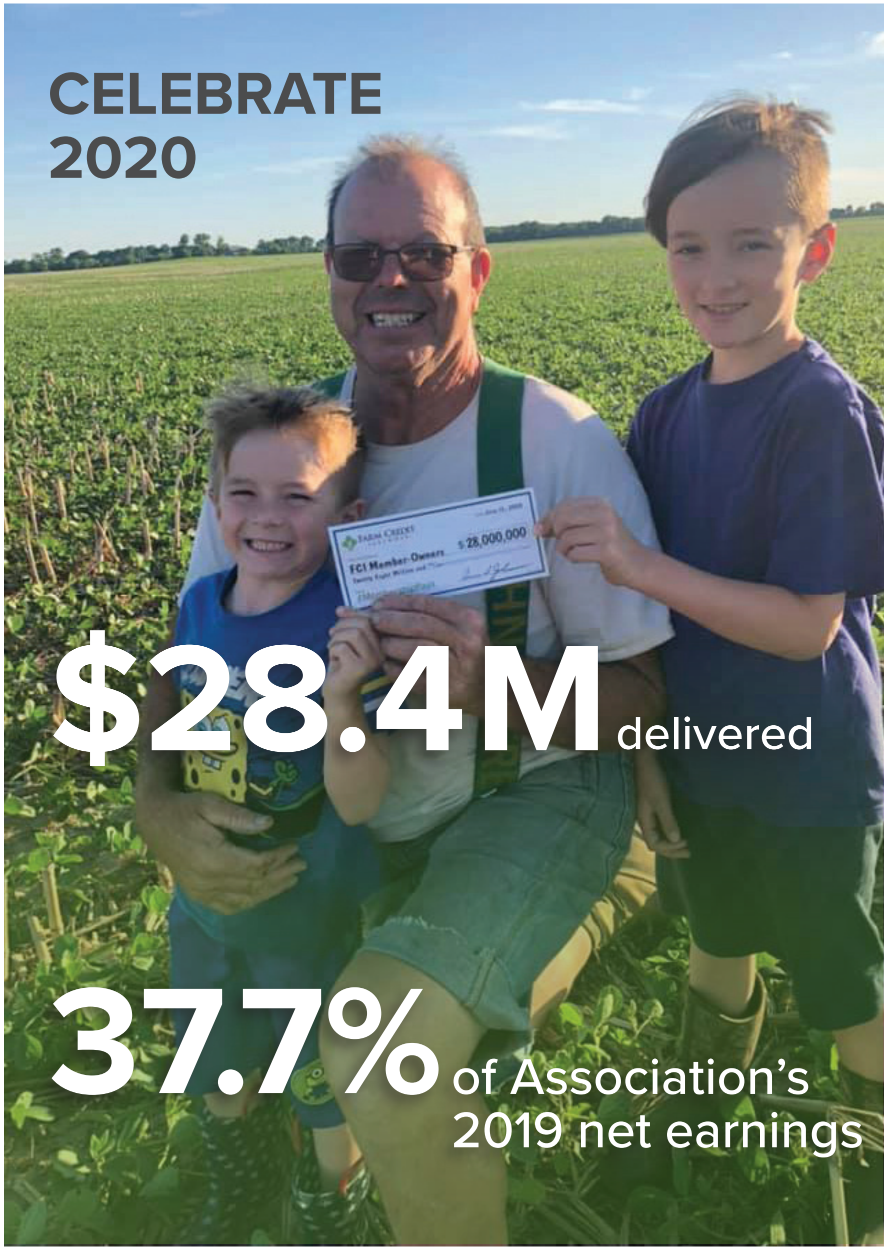
Member learning workshops

Rural marketplace investments

COOPERATIVE VALUE

FARM CREDIT ILLINOIS

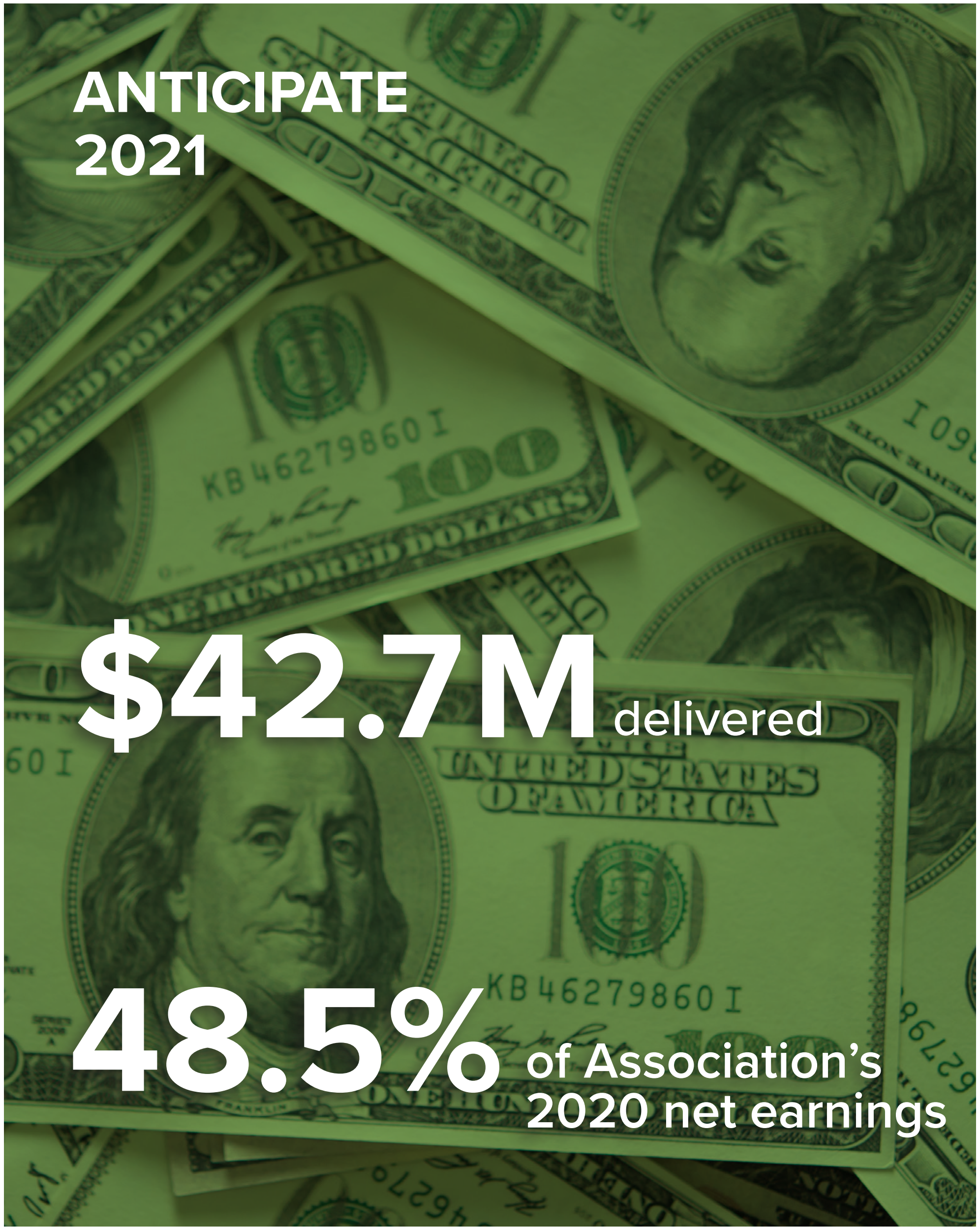
**CASH PATRONAGE**



## CELEBRATE 2020

**$28.4M** delivered

**37.7%** of Association's 2019 net earnings



## ANTICIPATE 2021

**$42.7M** delivered

**48.5%** of Association's 2020 net earnings

# CORE Purpose

## HELPING FARM FAMILIES SUCCEED

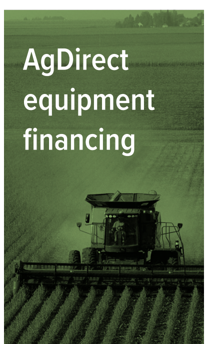
### Products & Services

The products and services at the core of FCI's business help fulfill its mission.

| | | |
|---|---|---|
| FARM REAL ESTATE LOANS | FRESHROOTS YOUNG AND BEGINNING FARMER LOANS | REAL ESTATE APPRAISALS |
| OPERATING LINES OF CREDIT | CROP INSURANCE | FARM CASH MANAGEMENT |
| MACHINERY, STRUCTURE, AND LIVESTOCK LOANS | AGRIBUSINESS FINANCING | FUNDS HELD |

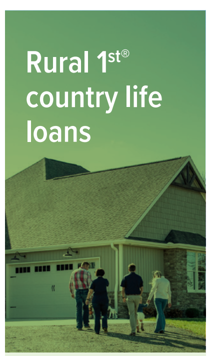
### System Collaborations

FCI partners with other Farm Credit Associations, generating additional income and diversifying the portfolio.

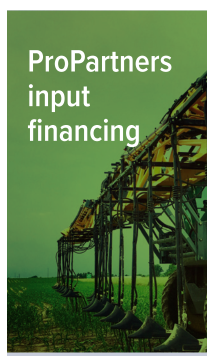



$184.6M


$1.3B



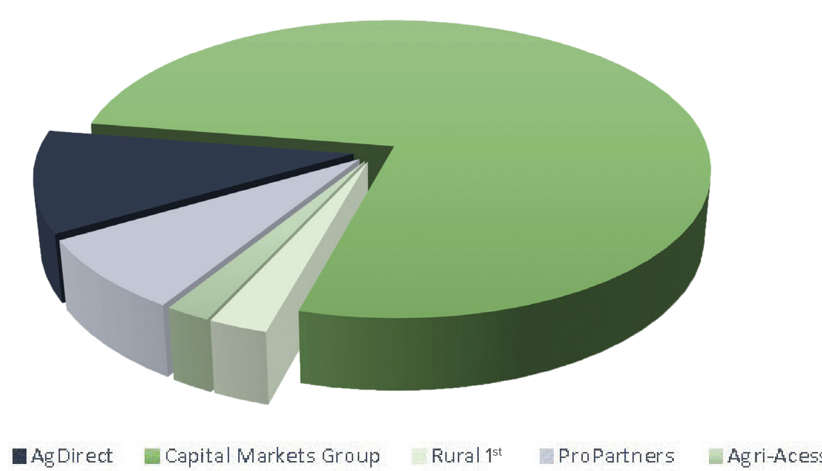

$43.9M




$131.5M


$33.5M

### Collaborated Loan Volume



## SERVING MEMBERS THROUGH THE PANDEMIC

While farmers worked to secure the food supply chain in 2020, FCI navigated the obstacles brought on by the global pandemic to deliver reliable, consistent credit and crop insurance expertise. The cooperative adapted work arrangements, implemented innovative strategies, and worked to fulfill the mission of **Helping Farm Families Succeed** while prioritizing the health and safety of farm families, local communities, and the FCI team.

### *my*FCI Online Secure Member Portal

**1K**

NEW ENROLLMENTS

**24%**

INCREASE IN ONLINE BANKING TRANSACTIONS

### Drop Boxes

**14**

ONE AT EACH REGIONAL OFFICE

### Loans Closed

**4,289**

SINCE ILLINOIS' STAY AT HOME ORDER

### Crop Insurance Claims

**$3.9M**

PROCESSED SINCE ILLINOIS' STAY-AT-HOME ORDER

### 2020 Survey Results

**97.8%**

OF MEMBERS ARE VERY SATISFIED OR SATISFIED WORKING WITH FCI

# LENDING for Country Living

## RURAL 1ST®

Whatever rural life you envision, FCI has the financing to make it happen with Rural 1st. As the leader in country life lending, Rural 1st provides a complete range of loan options for:

Rural Homes

Construction

Recreational Land

Rural Lots

### Rural 1st Lending Officers

**Luke Fraley**

**Kristie Hayes**

**Taryn Wolf**

RURAL 1st®
Lending for Country Living

EQUAL HOUSING LENDER

# MEMBER Engagement

## NOMINATING COMMITTEE

The 2021 nominating committee nominates candidates for the 2022 board of directors and nominating committee (listed below by region and county).

### Region 1

**Committee Members**

**David Dorn Jr.**, Christian
**John Klemm**, DeWitt
**John Rundquist**, Montgomery
**Austin Tomhave**, Morgan

**Alternates**

**Brian Burrus**, Cass
**Alec Murphy**, Sangamon
**Andrew Murray**, Jersey
**Allen Sasse**, Logan

### Region 2

**Committee Members**

**Ryan Gilbert**, Edgar
**Greg Pool**, Ford
**Brian Walk**, Cumberland
**Allen Walters**, Clark

**Alternates**

**Stan Catlett**, Vermilion
**Kevin Hunsinger**, Champaign
**David Punke**, Ford
**Mark Semple**, Jasper

### Region 3

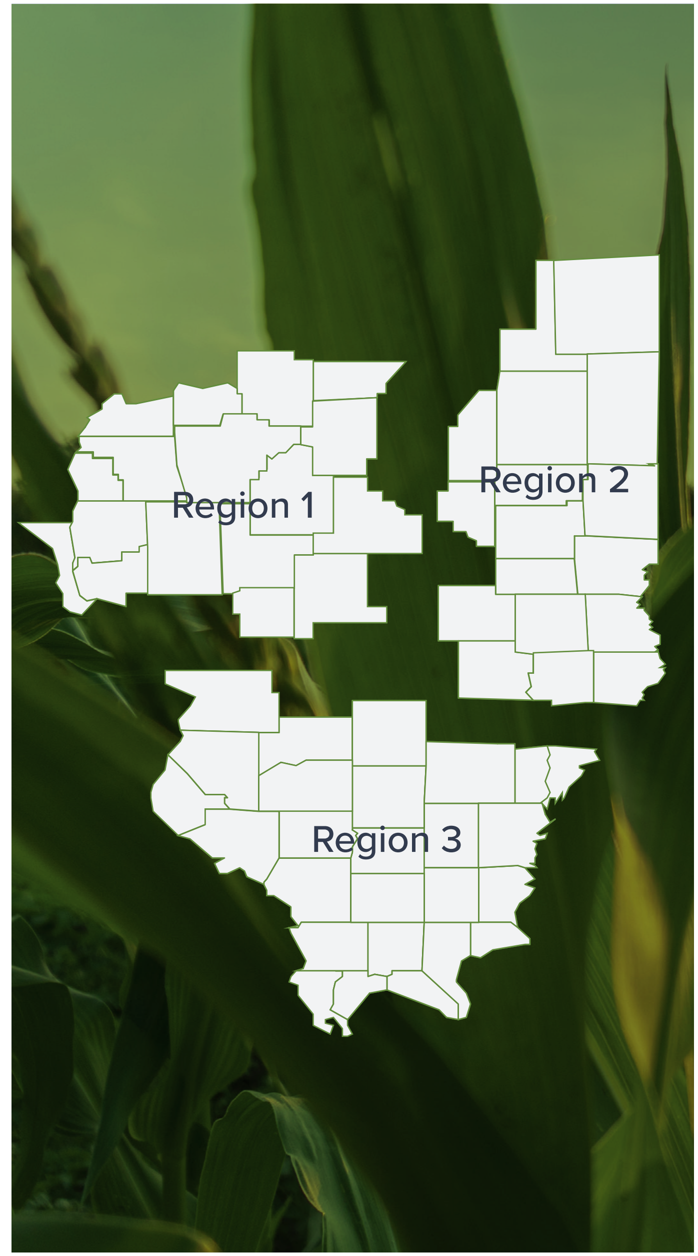
**Committee Members**

**Judith Edler**, Monroe
**Scott Knop**, Randolph
**David Krebel**, Monroe
**Arthur Matecki**, Washington

**Alternates**

**Allen Gramenz**, Randolph
**Alan Neuhaus**, Jackson
**Rick Pytlinski**, Jefferson
**Austin Winter**, Perry

Interested in serving as a director or nominating committee member? Submit a candidate interest form, available at **www.farmcreditIL.com/candidate**



# FRESH ROOTS

## FRESHROOTS ADVISORY COUNCIL


A group of members with diverse operations exchanged ideas with cooperative leadership, recommending future member experience initiatives. Due to COVID-19 pandemic, the traditional Member Advisory Council meetings were not held, however, the first annual young and beginning farmer **FreshRoots** Advisory Council meeting was held in February (participants listed below by county).

### FreshRoots Advisory Council

**Brad Barkley**, Macoupin
**Mike Briggs**, Champaign
**Danny Curtin**, Christian
**Chris Emken**, Crawford
**Marty Gray**, Iroquois
**Adam Magsig**, Hamilton
**Jamie & Shane McNeil**, Hamilton
**Clark McWhorter**, Effingham
**Rudy Pate**, Morgan
**Evan Schuette**, Clinton
**Eric Schwenke**, Parke (IN)
**Jake Stumpf**, Monroe
**Nathan & Jessica Wentworth**, Macon

## FRESHROOTS PROGRAM

FCI equips today's young and beginning farmers with lending assistance and learning incentives to members up to age 40 and/or in their first 10 years of farming.

**1,127**
Members enrolled

**$1.3M**
Learning incentives redeemed

**$313.8M**
Loan commitments

# FRESH ROOTS Directors Cup Recipients

## FRESHROOTS DIRECTORS CUP

The Directors Cup presented by the FCI Board celebrates young and beginning farmers committed to continuous learning and intentional living for a brighter future for their farm family business and community. Six members were named the second annual honorees in 2020 and each received $5,000.

Read more about each honoree at **www.farmcreditIL.com/freshroots**

FreshRoots
YOUNG & BEGINNING FARMERS

## ALEX HEAD, Blue Mound (Macon County)

| | |
|---|---|
| Farming Enterprises | Corn and soybeans |
| Farming Career | Began farming in 2011 and works with his parents and brother as a fourth generation farmer |
| Family Life | Wife Lena |
| Words to Live by | "We are incorporating specialty crops on our farm and each has presented its own set of challenges and learning curves. But their success has proven taking risks and trying new things can pay off if you're willing to put in the work." |

# FRESH ROOTS Directors Cup Recipients

## EVAN MARR, Jacksonville (Morgan County)

| | |
|---|---|
| Farming Enterprises | Corn, soybeans, and cattle |
| Farming Career | Began farming in 2014 and works with his father, uncle, and brother as a fourth generation farmer |
| Additional Business | Owns Elite Ag Sales – an ag equipment, crop health, and seed products business also offering custom farming operations – co-owns a trucking entity, and runs a cow-calf operation |
| Words to Live by | "It's one thing to collect data from your farms, but another to evaluate the data closely and use the results to make decisions. You have to take risks when testing a new strategy's potential, but referencing past results sets healthy boundaries." |

## MIKE NELSON, Paxton (Ford County)

| | |
|---|---|
| Farming Enterprises | Corn and soybeans |
| Farming Career | Began farming in 2013 as the fifth generation and partners with his father for equipment and labor |
| Family Life | Wife Amanda and son – Owen |
| Words to Live by | "First and foremost, keep your priorities straight. Put God first. Keep him in the decision making. That plays a big role in keeping your head on straight, and everything else builds off of that foundation." |

## MATTHEW AND MELANIE SCHMITZ, Valmeyer (Monroe County)

| | |
|---|---|
| Farming Enterprises | Corn, soybeans, cattle, and hay |
| Farming Career | Began farming 2008 and are now sole proprietors of their fourth generation family farm; in addition to farm work, Melanie is a finance senior manager at Bunge |
| Family Life | Sons – Mason, Gabriel, and one expected in early 2021 |
| Words to Live by | “It is up to every person to make their own success, which means not taking anything or any day for granted. Focusing on how today’s actions impact your future goals helps you make smart investments and choices.” |

## ANDY AND MONICA SCHUMACHER, Sigel (Cumberland County)

| | |
|---|---|
| Farming Enterprises | Corn, soybeans, wheat, hogs, and cattle |
| Farming Career | Began farming in 2009 as fourth generation sole proprietors; Andy is a full-time farmer and custom operator; Monica is a full-time accountant at Midland State Bank and for the farm |
| Family Life | Daughter – Myah |
| Words to Live by | “The best farmers and stewards of the land have learned from others and produced more with less. As we continue growing our role in the operation, we will strive to maintain current mentor relationships and expand our knowledge through learning opportunities.” |

# FRESH ROOTS Directors Cup Recipients

## JILL AND CHAD VONDER HAAR, Saint Rose (Clinton County)

| | |
|---|---|
| Farming Enterprises | Corn, soybeans, wheat, barley, hay, beef, pork, chicken, lamb, turkey, and eggs |
| Farming Career | Began farming in 2008 as third and fourth generation sole proprietors of Main Street Pastures farm store; Jill is a full-time farm manager and operator and Chad owns an automotive reconditioning business and works on the farm part-time |
| Family Life | Three daughters and one son – Ashlyn, Caitlyn, Lauryn, and Evan |
| Words to Live by | "We practice regenerative agriculture and connect with consumers through direct sales. Educating the public on modern agricultural practices helps shape our daily efforts and pushes us to provide safe, abundant food for our neighbors." |


## KNOW A DESERVING YOUNG FARMER OR COUPLE?

FCI celebrates young and beginning farmers committed to continuous learning and intentional living for a brighter future for their farm family business and community with the **FreshRoots** Directors Cup Award.

As of January 1 of the application year, applicants must be up to age 40 or in their first 10 years of farming and have had an FCI loan for at least three years. Recipients will be selected annually by a panel of industry representatives and an FCI Board member.

# $5,000 CASH AWARD

Applications available at **www.farmcreditIL.com/freshroots**

# FARM CREDIT COLLEGE

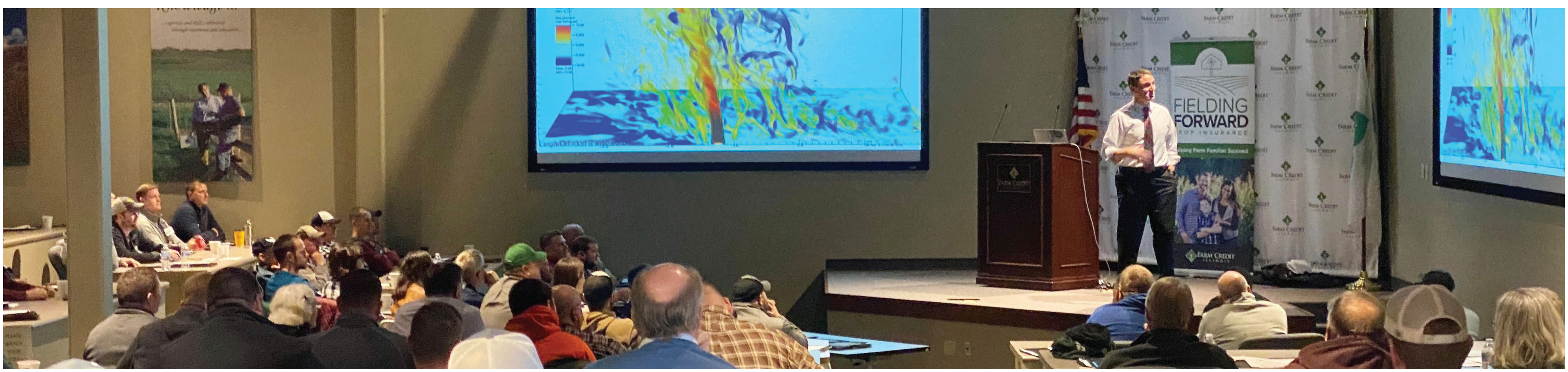
## LEARNING PROGRAMS

Learning workshops equip members with skills, strategies, and knowledge for success.

- **FreshRoots** Forums
- Estate Planning
- Farm Financial Analysis Virtual Workshops
- Fielding Forward Crop Insurance Meetings

**17**
PROGRAMS HELD

**1,197**
MEMBERS ATTENDED



# RURAL Marketplace

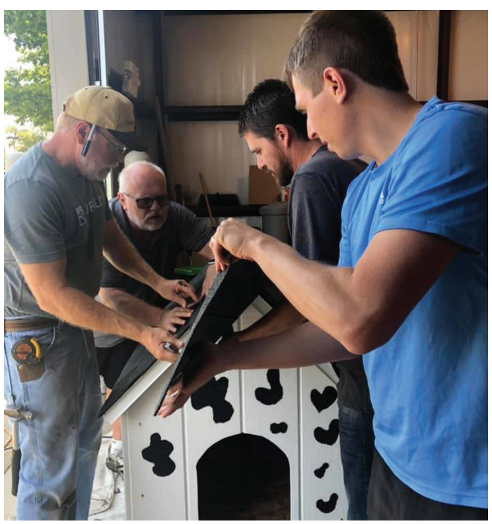
## SERVICE

Employees give back on behalf of FCI to the communities where they live and work. As part of the Association's Vision 2025 goals, employees strive to deliver 20,000 hours over 10 years toward youth development, ag-vocacy, and community organizations.

| | Hours |
|---|---|
| 2016 | 2,671 |
| 2017 | 2,164 |
| 2018 | 2,033 |
| 2019 | 2,216 |
| 2020 | 1,381 |

**10,465**

TOTAL VOLUNTEER SERVICE HOURS IN FIVE YEARS



## INVESTMENTS

### Scholarships and Grants

Scholarships support college students studying agriculture and community improvement grants help 4-H clubs and FFA chapters deliver tangible value in their community.

**In 2020**

**$85,000** INVESTED IN YOUTH PROGRAMS

**30** AGRICULTURE SCHOLARSHIPS

**50** IMPROVEMENT GRANTS

2020 Farm Credit Scholars

### Feeding Illinois Food Banks Donations

During the COVID-19 pandemic, food insecurity increased overall by an estimated 35% – and food insecurity among children increased by 46%. In support of the food banks serving families in need, FCI made two $100,000 donations, shared among four Feeding Illinois food banks including Eastern Illinois Foodbank, Central Illinois Foodbank, St. Louis Area Foodbank, and Tri-State Food Bank.

**$200,000** = **1M+**

FOOD BANKS DONATIONS = MEALS

# RURAL Marketplace

## INVESTMENTS

A growing portion of net earnings are returned to the rural marketplace with cash, in-kind, and endowment gifts. Farmer development funds support external organizations delivering learning programs for young, beginning, small, women, urban, and veteran farmers.

**In 2020**

| | | | |
|---|---|---|---|
| **$501,645** YOUTH DEVELOPMENT | **$27,972** AG-VOCACY | **$62,328** FARMER DEVELOPMENT | **$221,662** COMMUNITY CHARITIES |

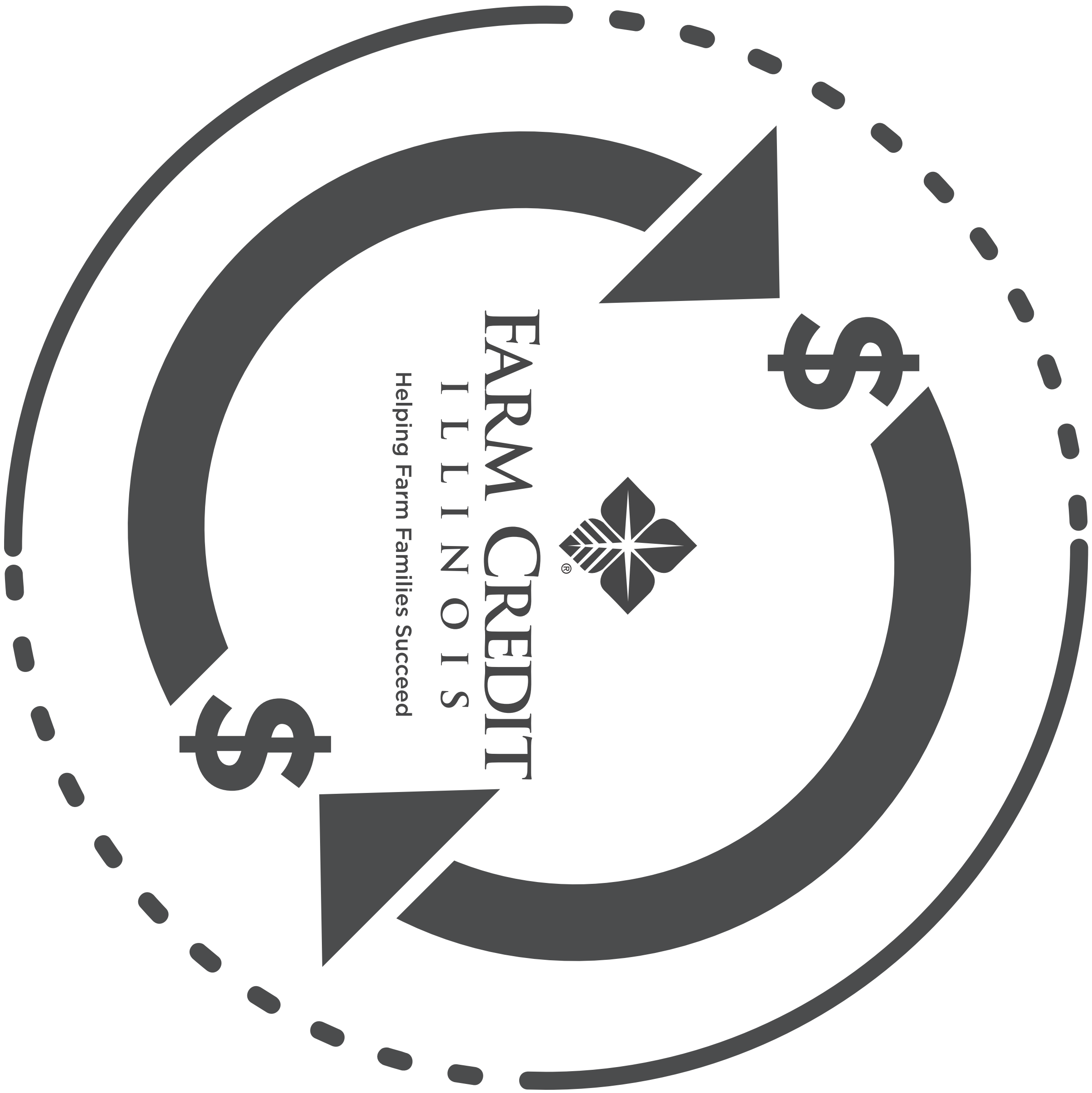
**$813,607**
TOTAL INVESTMENTS

## FUNDING FOR THE FUTURE

**$2M+**
MARKET VALUE OF THE FOLLOWING PERMANENT ENDOWMENTS

| | | |
|---|---|---|
| AG-VOCACY FUND AT THE COMMUNITY FOUNDATION OF EAST CENTRAL ILLINOIS | ILLINOIS AGRICULTURAL LEADERSHIP FOUNDATION | LAKE LAND COLLEGE |
| *FARMDOC* | ILLINOIS FFA | SOUTHERN ILLINOIS UNIVERSITY SCHOOL OF AGRICULTURAL SCIENCES |
| ILLINOIS 4-H | ILLINOIS FARM BUREAU YOUNG LEADERS | UNIVERSITY OF ILLINOIS COLLEGE OF ACES |

# FINANCIALS



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## Farm Credit Illinois, ACA

# CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

*Farm Credit Illinois, ACA*

*(dollars in thousands)*

| As of December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Statement of Condition Data** | | | | | |
| Loans | **$ 4,448,568** | $ 4,286,417 | $ 4,193,053 | $ 4,073,787 | $ 3,942,719 |
| Allowance for loan losses | **6,237** | 8,699 | 8,798 | 7,111 | 6,420 |
| Net loans | **4,442,331** | 4,277,718 | 4,184,255 | 4,066,676 | 3,936,299 |
| Investment in AgriBank, FCB | **137,515** | 118,610 | 109,647 | 95,206 | 95,206 |
| Investment securities | **49,840** | 9,559 | -- | -- | -- |
| Other assets | **119,215** | 115,640 | 121,761 | 102,292 | 82,522 |
| Total assets | **$ 4,748,901** | $ 4,521,527 | $ 4,415,663 | $ 4,264,174 | $ 4,114,027 |
| Obligations with maturities of one year or less | **$ 69,414** | $ 61,880 | $ 56,841 | $ 30,872 | $ 3,267,063 |
| Obligations with maturities greater than one year | **3,616,253** | 3,441,433 | 3,387,272 | 3,314,191 | -- |
| Total liabilities | **3,685,667** | 3,503,313 | 3,444,113 | 3,345,063 | 3,267,063 |
| Protected members' equity | **--** | -- | -- | 4 | 5 |
| Capital stock and participation certificates | **7,656** | 7,489 | 7,554 | 7,922 | 8,035 |
| Unallocated surplus | **1,056,955** | 1,011,847 | 964,705 | 912,270 | 838,924 |
| Accumulated other comprehensive income loss | **(1,377)** | (1,122) | (709) | (1,085) | -- |
| Total members' equity | **1,063,234** | 1,018,214 | 971,550 | 919,111 | 846,964 |
| Total liabilities and members' equity | **$ 4,748,901** | $ 4,521,527 | $ 4,415,663 | $ 4,264,174 | $ 4,114,027 |

| For the year ended December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 102,639** | $ 95,526 | $ 98,663 | $ 93,806 | $ 96,090 |
| (Reversal of) provision for loan losses | **(2,261)** | 672 | 1,952 | 983 | 2,111 |
| Other expenses, net | **16,788** | 19,468 | 24,276 | 19,477 | 24,346 |
| Net income | **$ 88,112** | $ 75,386 | $ 72,435 | $ 73,346 | $ 69,633 |
| **Key Financial Ratios** | | | | | |
| **For the Year** | | | | | |
| Return on average assets | **1.9%** | 1.7% | 1.7% | 1.8% | 1.8% |
| Return on average members' equity | **8.3%** | 7.5% | 7.6% | 8.3% | 8.6% |
| Net interest income as a percentage of average earning assets | **2.3%** | 2.3% | 2.4% | 2.4% | 2.5% |
| Net charge-offs as a percentage of average loans | **0.0%** | 0.0% | 0.0% | 0.0% | 0.0% |
| **At Year End** | | | | | |
| Members' equity as a percentage of total assets | **22.4%** | 22.5% | 22.0% | 21.6% | 20.6% |
| Allowance for loan losses as a percentage of loans | **0.1%** | 0.2% | 0.2% | 0.2% | 0.2% |
| Capital ratios effective beginning January 1, 2017: | | | | | |
| Common equity tier 1 ratio | **20.0%** | 20.0% | 18.9% | 18.2% | N/A |
| Tier 1 capital ratio | **20.0%** | 20.0% | 18.9% | 18.2% | N/A |
| Total capital ratio | **20.1%** | 20.2% | 19.2% | 18.3% | N/A |
| Permanent capital ratio | **20.0%** | 20.1% | 19.0% | 18.2% | N/A |
| Tier 1 leverage ratio | **21.3%** | 21.4% | 20.3% | 20.0% | 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 | 17.0% |
| Core surplus ratio | **N/A** | N/A | N/A | N/A | 17.0% |
| **Net Income Distributed** | | | | | |
| **For the Year** | | | | | |
| Paid for prior year's patronage: | | | | | |
| Cash | **$ 28,412** | $ 20,166 | $ -- | $ -- | $ -- |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Farm Credit Illinois, ACA*

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Illinois, ACA (the Association or FCI) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, 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:

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Mahomet, IL 61853
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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 which may be beyond our control. These risks and uncertainties include, but are not limited to:

- Political (including trade and environment 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, rural 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, other-than-temporary impairment, and fair value measurements
- Industry outlooks for agricultural conditions
- Changes in interest rate indices utilized in our lending

## COVID-19 PANDEMIC

The spread of COVID-19 has created a global public-health crisis that has stifled the world-wide economy, decreased liquidity in fixed income and equity markets, significantly increased unemployment levels and disrupted global supply and demand chains. Unprecedented actions are being taken by governments, businesses, and individuals to slow or contain the spread of COVID-19, including quarantines, stay-at-home orders, school closings, and travel bans that have substantially restricted daily activities and forced many businesses to curtail or cease operations. The impact of COVID-19 on companies is evolving rapidly and its future effects are uncertain.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and the operations of our Association are fully functioning. Our Association followed state directives to limit person-to-person contact by closing our lobby and allowing in person visits by appointment only.

The extent to which the COVID-19 pandemic impacts the Association will depend on future developments that are highly uncertain and cannot be predicted such as the duration, extent and severity of the pandemic, the continued response by the U.S. government, and how quickly “normal” daily activities resume.

## AGRICULTURAL AND ECONOMIC CONDITIONS

The final Illinois Crop Production report issued on November 10, 2020, projected 2020 Illinois corn production at 2.2 billion bushels, up 18% from last year after harvested area increased 10% over 2019. The estimated yield per acre is 195 bushels per acre compared to 181 bushels per acre in 2019. Soybean production for 2020 is pegged at 595.0 million bushels with an average yield of 58 bushels per acre. These figures represent a 7% increase in yield and a 12% increase in Illinois soybean production, year over year. For perspective, 2020 corn and soybean yield and production estimates remained below 2018 levels.

The December 10, 2020, United States Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates (WASDE) showed corn production at 14.5 billion bushels and a national average yield of 175.8 bushels per acre. Compared with the July report, production estimates are down 493 million bushels and total use is up 200 million bushels. All factors considered, corn ending stocks are projected lower by 946 million bushels, a decrease of more than 35%. The USDA season average farm price expectation for corn is now $4.00 per bushel, up $0.65 per bushel from July. Soybean production is estimated at 4.2 billion bushels with a national average yield of 50.7 bushels per acre. Versus the July estimates, production is slightly higher but beginning stocks have been lowered and total use is projected substantially higher. The result is an ending stocks estimate of 175 billion bushels, nearly 59% lower than the July figure, and a resulting stocks-to-use ratio at one of its lowest historical levels. For December, the USDA season average farm price was estimated at $10.55 per bushel, up $2.05 per bushel from the mid-summer report.

Given the fundamentals, the fourth quarter of 2020 was marked by a dramatic realized price increase for both corn and soybeans since their lows. The primary reason for the price increase, as reflected in the WASDE information above, is export sales and commitments. Corn exports are running 900 million bushels ahead of last year’s pace and the 5-year average, while soybeans are up almost a billion bushels. China accounted for half of the increase in corn sales and commitments and 75% of the increase for soybeans.

Domestically, a late season drought developed across northern Illinois, Indiana, and most of Iowa. In addition, the region experienced a rare derecho event which is defined as a sustained straight-line windstorm. The storm flattened millions of acres of corn and soybeans with crop damages estimated at 800 million bushels of corn and 250 million bushels of soybeans. Regarding foreign supply, the La Nino/La Nina index dipped to negative one in South America which typically indicates dry conditions. Weather has in fact been dry in South America and those conditions are likely to continue in the short-term, further reducing yield prospects.

Above trend line yields combined with commodity price increases have drastically changed the 2020 net income expectation for Illinois grain farms. Most Illinois farms also received additional ad hoc Federal assistance payments. According to information from University of Illinois agricultural economists, from 2006 to 2013, net incomes averaged $201 thousand for a typical farm enrolled in Illinois Farm Business Farm Management record keeping. During the period 2014 to 2019, similar operations averaged $78 thousand per year in net income. In 2019, specifically, that figure was $74 thousand. With changing factors, the 2020 net income expectation for the same operation has increased substantially, perhaps nearing the $180 thousand level. The forecast for 2021 net income is unclear as it is difficult to predict production with any certainty or whether ad hoc Federal payments will continue. Given current fundamentals, prospects for the success of the newly introduced COVID-19 vaccines precipitating a return to more normal economies, and continued good yields, the 2021 outlook is relatively bright.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $4.4 billion at December 31, 2020, an increase of $162.2 million from December 31, 2019.

**Components of Loans**

| (in thousands)<br>As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Accrual loans: | | | |
| Real estate mortgage | **$ 2,464,419** | $ 2,485,197 | $ 2,408,766 |
| Production and intermediate-term | **742,731** | 705,746 | 747,105 |
| Agribusiness | **932,399** | 815,263 | 786,537 |
| Other | **305,178** | 275,819 | 244,010 |
| Nonaccrual loans | **3,841** | 4,392 | 6,635 |
| Total loans | **$ 4,448,568** | $ 4,286,417 | $ 4,193,053 |

The other category is primarily composed of rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

We have sold to AgriBank participation interests in certain loans as part of pool programs. We sold participation interests in real estate loans of approximately $190.0 million to the AgriBank Asset Pool program on September 1, 2020. The total outstanding participation interests in these programs were $498.0 million, $305.3 million, and $334.1 million at December 31, 2020, 2019, and 2018, respectively.

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 loan programs 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.

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 and loan payments were deferred up to six months, which was later extended to ten months by the PPP Flexibility Act of 2020. As of December 31, 2020, we have successfully processed $12.4 million in PPP loans for customers with primarily production and intermediate-term type loans. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $2.5 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. We have processed a significant number of applications under the expanded program, particularly for first draw loans. We anticipate total loans processed under the expanded program to exceed the total processed during 2020.

## Portfolio Distribution

We are chartered to serve certain counties in Illinois. Approximately 88.0% of our total loan portfolio was in the state of Illinois at December 31, 2020. No county comprised more than 5.0% of our total loan portfolio at December 31, 2020.

**Agricultural Concentrations**

| As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Corn and soybeans | **53.8%** | 55.8% | 56.9% |
| Landlords | **11.3%** | 10.6% | 8.5% |
| Production and services | **8.6%** | 8.2% | 10.4% |
| Ancillary agriculture products | **7.4%** | 8.2% | 5.0% |
| Livestock | **5.6%** | 4.9% | 8.0% |
| Other | **13.3%** | 12.3% | 11.2% |
| 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 1.9% of the portfolio at December 31, 2020, from 2.6% 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.

## Risk Assets

**Components of Risk Assets**

(dollars in thousands)

| As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Loans: | | | |
| Nonaccrual | **$ 3,841** | $ 4,392 | $ 6,635 |
| Accruing restructured | **36** | 40 | 67 |
| Accruing loans 90 days or more past due | **1,345** | 2,201 | -- |
| Total risk loans | **5,222** | 6,633 | 6,702 |
| Other property owned | **--** | -- | -- |
| Total risk assets | **$ 5,222** | $ 6,633 | $ 6,702 |
| Total risk loans as a percentage of total loans | **0.1%** | 0.2% | 0.2% |
| Nonaccrual loans as a percentage of total loans | **0.1%** | 0.1% | 0.2% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **86.1%** | 72.2% | 51.0% |
| Total delinquencies as a percentage of total loans | **0.2%** | 0.2% | 0.4% |

Note: Accruing loans include accrued interest receivable.

Nonaccrual loans remained at an acceptable level at December 31, 2020, 2019, and 2018.

Our accounting policy 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 | **0.1%** | 0.2% | 0.2% |
| Nonaccrual loans | **162.4%** | 198.1% | 132.6% |
| Total risk loans | **119.4%** | 131.1% | 131.3% |
| Net charge-offs as a percentage of average loans | **0.0%** | 0.0% | 0.0% |
| Adverse assets to capital and allowance for loan losses | **7.9%** | 11.2% | 11.2% |

The decrease in our allowance for loan losses was primarily due to the pay down of several substandard agribusiness loans and risk rating improvements as a result of improved member liquidity and cash inflows resulting from additional Federal assistance.

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, 10, 11, and 12 to the accompanying Consolidated Financial Statements.

## INVESTMENT SECURITIES

In addition to loans, we held investment securities beginning in 2019. Investment securities totaled $49.8 million and $9.6 million at December 31, 2020 and 2019, respectively. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at December 31, 2020. However, any premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2020 and 2019, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Note 5 to the accompanying Consolidated Financial Statements and regulatory changes related to investments is included in the Regulatory Matters section.

## RESULTS OF OPERATIONS

**Profitability Information**

| (dollars in thousands)<br>For the year ended December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Net income | **$** | **88,112** | $ | 75,386 | $ | 72,435 |
| Return on average assets | | **1.9%** | | 1.7% | | 1.7% |
| Return on average members' equity | | **8.3%** | | 7.5% | | 7.6% |

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 and Investment Securities sections
- 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 | **$** | **102,639** | $ | 95,526 | $ | 98,663 | **$** | **7,113** | $ | (3,137) |
| (Reversal of) provision for loan losses | | **(2,261)** | | 672 | | 1,952 | | **2,933** | | 1,280 |
| Non-interest income | | **44,375** | | 39,362 | | 37,261 | | **5,013** | | 2,101 |
| Non-interest expense | | **64,531** | | 57,725 | | 62,741 | | **(6,806)** | | 5,016 |
| (Benefit from) provision for income taxes | | **(3,368)** | | 1,105 | | (1,204) | | **4,473** | | (2,309) |
| Net income | **$** | **88,112** | $ | 75,386 | $ | 72,435 | **$** | **12,726** | $ | 2,951 |

### Net Interest Income

**Changes in Net Interest Income**

| (in thousands)<br>For the year ended December 31 | | 2020 vs 2019 | | 2019 vs 2018 |
|---|---|---|---|---|
| Changes in volume | **$** | **4,270** | $ | 2,050 |
| Changes in interest rates | | **2,716** | | (5,133) |
| Changes in nonaccrual income and other | | **127** | | (54) |
| Net change | **$** | **7,113** | $ | (3,137) |

Net interest margin (net interest income as a percentage of average earning assets) was 2.3%, 2.3%, and 2.4% in 2020, 2019, and 2018, respectively. Due to the COVID-19 pandemic, the Federal Reserve Bank dropped interest rates 150 basis points in March during two unscheduled meetings. In addition, AgriBank reduced our cost of funds in the second half of 2020. As a result, we converted a record number of loans which increased spread for the Association and decreased member rates. Our net interest margin is sensitive to interest rate changes and competition.

### (Reversal of) Provision for Loan Losses

The change in the (reversal of) provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. More specifically, the change was due to large pay downs of agribusiness loans and risk rating improvement as a result of improved member liquidity and cash inflows resulting from additional Federal assistance. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

### Non-Interest Income

The change in non-interest income was primarily due to patronage income and other 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)<br>For the year ended December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Patronage from AgriBank | **$** | **29,462** | $ | 26,292 | $ | 23,683 |
| AgDirect partnership distribution | | **1,279** | | 1,143 | | 1,018 |
| Other patronage | | **214** | | 18 | | 12 |
| Total patronage income | **$** | **30,955** | $ | 27,453 | $ | 24,713 |
| Form of patronage distributions: | | | | | | |
| Cash | **$** | **30,955** | $ | 18,490 | $ | 24,713 |
| Stock | | **--** | | 8,963 | | -- |
| Total patronage income | **$** | **30,955** | $ | 27,453 | $ | 24,713 |

The increase in patronage income was primarily due to additional wholesale patronage received from AgriBank. 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.

**Other Non-interest Income:** The increase in other non-interest income was primarily due to fees received on Rural 1st loan originations in our territories. See Other Relationships and Programs section for additional information on the Rural 1st program.

## Non-Interest Expense

**Components of Non-interest Expense**

| (dollars in thousands)<br>For the year ended December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Salaries and employee benefits | **$** | **36,373** | $ | 30,884 | $ | 30,768 |
| Other operating expense: | | | | | | |
| Purchased and vendor services | | **9,910** | | 10,157 | | 12,947 |
| Communications | | **808** | | 676 | | 965 |
| Occupancy and equipment | | **2,871** | | 2,871 | | 3,286 |
| Advertising and promotion | | **1,710** | | 1,666 | | 1,541 |
| Examination | | **1,223** | | 1,244 | | 1,171 |
| Farm Credit System insurance | | **3,249** | | 2,952 | | 2,987 |
| Other | | **7,971** | | 7,238 | | 8,405 |
| Other non-interest expense | | **416** | | 37 | | 671 |
| Total non-interest expense | **$** | **64,531** | $ | 57,725 | $ | 62,741 |
| Operating rate | | **1.5%** | | 1.4% | | 1.5% |

The increase in non-interest expense was primarily driven by increases in salaries and employee benefits and loan servicing expenses presented within other expense. Salaries and employee benefits expense increased primarily due to an increase in salaries and medical insurance. Loan servicing expense increases are the result of an increase in our share of tax liability on capital markets transactions and fees paid as a result of our participation in the AgriAccess pool program.

Farm Credit System insurance expense increased in 2020 primarily due to a mid-year increase in the premium rate charged by FCSIC on accrual loans from 8 basis points to 11 basis points in July 2020. The FCSIC Board meets periodically throughout the year to review premium rates and has the ability to change these rates at any time.

## (Benefit from) Provision for Income Taxes

The variance in (benefit from) provision for income taxes was related to our estimate of taxes based on taxable income. During 2020, the CARES Act amended existing tax law to allow for the carryback of net operating losses from 2018 through 2020 to offset net operating income during periods 2013 through 2015. The change in the (benefit from) provision to income taxes was the result of adjustments to reduce the valuation allowance against deferred tax assets relating to prior years. Additional discussion is included in Note 8 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 6 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 $882.2 million 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 | **$ 3,500,375** | $ 3,281,482 | $ 3,262,456 |
| Average interest rate | **1.7%** | 2.7% | 2.5% |

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. Our other source of lendable funds is from unallocated surplus. At December 31, 2020, gross loans are funded 81.3% by the direct note and 18.7% by unallocated surplus.

## CAPITAL ADEQUACY

Total members' equity was $1.1 billion, $1.0 billion, and $971.6 million at December 31, 2020, 2019, and 2018, respectively. Total members' equity increased $45.0 million from December 31, 2019, primarily due to net income for the year partially offset by $42.7 million of patronage distribution accruals**.** The increase in accrued patronage in the current year was primarily due to the accrual of a one-time preseason patronage distribution to be paid in 2021. Refer to Note 7 for additional information on accrued patronage distributions.

The FCA Regulations require us to maintain minimums for our common equity tier 1, 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: | | | | | | |
| Common equity tier 1 ratio | **20.0%** | 20.0% | 18.9% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **20.0%** | 20.0% | 18.9% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **20.1%** | 20.2% | 19.2% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **20.0%** | 20.1% | 19.0% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 leverage ratio | **21.3%** | 21.4% | 20.3% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **23.3%** | 23.0% | 21.6% | 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 and the Investment Securities sections for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 7 to the accompanying Consolidated Financial Statements and off-balance sheet commitments are discussed in Note 11 the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target. 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 total capital target is 16.0%, 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 6 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 and liquidity
- A bank profitability component
- 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. During 2020, the District did not grow beyond the targeted growth rate, therefore we were not required to purchase any additional stock as of December 31, 2020.

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 various services from AgriBank and SunStream Business Services (SunStream), a separate service entity formed on April 1, 2020. AgriBank continues to provide financial reporting services while Sunstream provides tax reporting services, insurance, and various ancillary business and technology services. Additional related party information is included in Note 10 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

**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 immediately purchases a 100% participation interest in all new ProPartners loans.

**Capital Markets Group:** We participate in the Capital Markets Group (CMG) with two other AgriBank District associations. The CMG focuses on generating revenue and loan volume for the financial benefit of all three participating associations. Management for each association has direct decision-making authority over the loans purchased and serviced for their respective association. The business arrangement provides additional means for diversifying each participant's portfolio, helps reduce concentration risk, and positions the participants for continued growth. We had $1.3 billion, $1.2 billion, and $1.1 billion of CMG volume outstanding at December 31, 2020, 2019, and 2018, respectively.

**Rural 1st:** In 2019, FCI became a participant in the Rural 1st referral program to provide rural home lending to members. The program is facilitated by another association in the AgriBank District where the loans are serviced. We receive fees from the facilitating lender on loan volume originated in our territories. We received $925 thousand and $58 thousand in origination fees for the years ended December 31, 2020, and 2019, respectively.

**AgriAccess:** In 2020, we purchased participations from another AgriBank District association that originates and services all assets. We then sold 100% of those participations to AgriBank and earnings are returned to us when AgriBank pays pool patronage. The program is focused on providing financing for agricultural real estate loans and leases through a network of non-Farm Credit lenders across the United States. We pay the facilitating association fees to originate and service the loans. We paid $262 thousand in fees for the year ended December 31, 2020.

**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 $79 thousand at December 31, 2020, 2019, and 2018.

**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 $29 thousand. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

**Farm Credit Financial Partners, Inc.:** Beginning in 2018, 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 $9.9 million, $9.8 million, and $10.3 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. Refer to Note 11 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 $11.5 million, $8.4 million, and $8.0 million at December 31, 2020, 2019, and 2018, respectively.

### Programs

**Agriculture and Rural Community (ARC) Bond Program:** We participated in the ARC Bond program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making other mission related investments through loans that support farmers, ranchers, agribusinesses, and their rural communities and businesses. The FCA Board voted to conclude the program effective December 31, 2014. The Board's action permits each System institution to hold its ARC Bond program loans through the maturity dates of the loans, provided the institution continues to meet all approval conditions. The ARC Bond program is part of our mission related investments. These loans will help to increase rural communities' and businesses' well-being and prosperity by providing an adequate flow of capital into rural areas. We had $6.9 million, $12.2 million, and $17.6 million of volume under this program at December 31, 2020, 2019, and 2018, respectively.

## 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, which were previously only allowed under a No Action Letter issued by FCA.

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

*Farm Credit Illinois, ACA*

We prepare the Consolidated Financial Statements of Farm Credit Illinois, 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. They also consider internal controls to the extent necessary to design audit procedures that comply with auditing standards generally accepted in the United States of America. 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.

Eric J. Mosbey

Eric J. Mosbey
Chairperson of the Board
Farm Credit Illinois, ACA

Aaron S. Johnson

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

March 15, 2021

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

*Farm Credit Illinois, ACA*

The Farm Credit Illinois, 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.

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. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020.

Aaron S. Johnson

Aaron S. Johnson
President and Chief Executive Officer
Farm Credit Illinois, ACA

Kelly D. Loschen

Kelly D. Loschen
Chief Financial Officer
Farm Credit Illinois, ACA

March 15, 2021

# REPORT OF AUDIT COMMITTEE

*Farm Credit Illinois, 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 Farm Credit Illinois, 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 internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. 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.

David Haase

David Haase
Chairperson of the Audit Committee
Farm Credit Illinois, ACA

Kent Brinkmann
Michael Donohoe
Adam Brown
Kevin Miller

March 15, 2021

pwc

**Report of Independent Auditors**

To the Board of Directors of Farm Credit Illinois, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Illinois, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2020, 2019, and 2018, and the related consolidated statements of comprehensive income, changes in members' equity and cash flows for the years then ended.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

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

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

***Opinion***

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

PricewaterhouseCoopers LLP

March 15, 2021

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

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Illinois, ACA*

*(in thousands)*

| As of December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Loans | **$** | **4,448,568** | $ | 4,286,417 | $ | 4,193,053 |
| Allowance for loan losses | | **6,237** | | 8,699 | | 8,798 |
| Net loans | | **4,442,331** | | 4,277,718 | | 4,184,255 |
| Investment in AgriBank, FCB | | **137,515** | | 118,610 | | 109,647 |
| Investment securities | | **49,840** | | 9,559 | | -- |
| Accrued interest receivable | | **49,424** | | 56,687 | | 54,569 |
| Deferred tax assets, net | | **1,241** | | -- | | 1,120 |
| Other assets | | **68,550** | | 58,953 | | 66,072 |
| Total assets | **$** | **4,748,901** | $ | 4,521,527 | $ | 4,415,663 |
| **LIABILITIES** | | | | | | |
| Note payable to AgriBank, FCB | **$** | **3,616,253** | $ | 3,441,433 | $ | 3,387,272 |
| Accrued interest payable | | **10,676** | | 21,393 | | 22,244 |
| Patronage distribution payable | | **42,670** | | 28,078 | | 20,000 |
| Other liabilities | | **16,068** | | 12,409 | | 14,597 |
| Total liabilities | | **3,685,667** | | 3,503,313 | | 3,444,113 |
| Contingencies and commitments (Note 11) | | | | | | |
| **MEMBERS' EQUITY** | | | | | | |
| Capital stock and participation certificates | | **7,656** | | 7,489 | | 7,554 |
| Unallocated surplus | | **1,056,955** | | 1,011,847 | | 964,705 |
| Accumulated other comprehensive loss | | **(1,377)** | | (1,122) | | (709) |
| Total members' equity | | **1,063,234** | | 1,018,214 | | 971,550 |
| Total liabilities and members' equity | **$** | **4,748,901** | $ | 4,521,527 | $ | 4,415,663 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Illinois, ACA*

*(in thousands)*

| For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Interest income** | **$ 162,982** | $ 185,005 | $ 178,723 |
| **Interest expense** | **60,343** | 89,479 | 80,060 |
| Net interest income | **102,639** | 95,526 | 98,663 |
| **(Reversal of) provision for loan losses** | **(2,261)** | 672 | 1,952 |
| Net interest income after (reversal of) provision for loan losses | **104,900** | 94,854 | 96,711 |
| **Non-interest income** | | | |
| Patronage income | **30,955** | 27,453 | 24,713 |
| Financially related services income | **7,673** | 7,525 | 7,085 |
| Fee income | **3,638** | 3,060 | 2,788 |
| Allocated Insurance Reserve Accounts distribution | **835** | 939 | 2,318 |
| Other non-interest income | **1,274** | 385 | 357 |
| Total non-interest income | **44,375** | 39,362 | 37,261 |
| **Non-interest expense** | | | |
| Salaries and employee benefits | **36,373** | 30,884 | 30,768 |
| Other operating expense | **27,742** | 26,804 | 31,302 |
| Other non-interest expense | **416** | 37 | 671 |
| Total non-interest expense | **64,531** | 57,725 | 62,741 |
| Income before income taxes | **84,744** | 76,491 | 71,231 |
| **(Benefit from) provision for income taxes** | **(3,368)** | 1,105 | (1,204) |
| Net income | **$ 88,112** | $ 75,386 | $ 72,435 |
| **Other comprehensive (loss) income** | | | |
| Employee benefit plans activity | **$ (255)** | $ (413) | $ 376 |
| Total other comprehensive (loss) income | **(255)** | (413) | 376 |
| Comprehensive income | **$ 87,857** | $ 74,973 | $ 72,811 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Illinois, ACA*

*(in thousands)*

| | Protected Members' Equity | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|---|
| Balance as of December 31, 2017 | $ 4 | $ 7,922 | $ 912,270 | $ (1,085) | $ 919,111 |
| Net income | -- | -- | 72,435 | -- | 72,435 |
| Other comprehensive income | -- | -- | -- | 376 | 376 |
| Unallocated surplus designated for patronage distributions | -- | -- | (20,000) | -- | (20,000) |
| Capital stock and participation certificates issued | -- | 429 | -- | -- | 429 |
| Capital stock and participation certificates retired | (4) | (797) | -- | -- | (801) |
| Balance as of December 31, 2018 | -- | 7,554 | 964,705 | (709) | 971,550 |
| Net income | -- | -- | 75,386 | -- | 75,386 |
| Other comprehensive loss | -- | -- | -- | (413) | (413) |
| Unallocated surplus designated for patronage distributions | -- | -- | (28,244) | -- | (28,244) |
| Capital stock and participation certificates issued | -- | 451 | -- | -- | 451 |
| Capital stock and participation certificates retired | -- | (516) | -- | -- | (516) |
| Balance as of December 31, 2019 | -- | 7,489 | 1,011,847 | (1,122) | 1,018,214 |
| Net income | **--** | **--** | **88,112** | **--** | **88,112** |
| Other comprehensive loss | **--** | **--** | **--** | **(255)** | **(255)** |
| Unallocated surplus designated for patronage distributions | **--** | **--** | **(43,004)** | **--** | **(43,004)** |
| Capital stock and participation certificates issued | **--** | **707** | **--** | **--** | **707** |
| Capital stock and participation certificates retired | **--** | **(540)** | **--** | **--** | **(540)** |
| **Balance as of December 31, 2020** | **$ --** | **$ 7,656** | **$ 1,056,955** | **$ (1,377)** | **$ 1,063,234** |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*Farm Credit Illinois, ACA*

*(in thousands)*

| For the year ended December 31 | | **2020** | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| Net income | **$** | **88,112** | $ | 75,386 | $ | 72,435 |
| Depreciation on premises and equipment | | **731** | | 764 | | 879 |
| Loss on sale of premises and equipment, net | | **2** | | -- | | 3 |
| Amortization of premiums on loans and investment securities | | **5,783** | | 5,479 | | 2,410 |
| (Reversal of) provision for loan losses | | **(2,261)** | | 672 | | 1,952 |
| Stock patronage received from AgriBank, FCB | | **--** | | (8,963) | | -- |
| Changes in operating assets and liabilities: | | | | | | |
| Decrease (increase) in accrued interest receivable | | **7,204** | | (2,324) | | (5,801) |
| (Increase) decrease in other assets | | **(7,584)** | | 7,901 | | (6,172) |
| (Decrease) increase in accrued interest payable | | **(10,717)** | | (851) | | 5,903 |
| Increase (decrease) in other liabilities | | **3,404** | | (2,601) | | 442 |
| Net cash provided by operating activities | | **84,674** | | 75,463 | | 72,051 |
| **Cash flows from investing activities** | | | | | | |
| Increase in loans, net | | **(167,014)** | | (99,250) | | (128,758) |
| Purchases of investment in AgriBank, FCB, net | | **(18,905)** | | -- | | (14,441) |
| (Purchases) redemptions of investment in other Farm Credit Institutions, net | | **(3,210)** | | 65 | | (1,303) |
| Purchases of investment securities | | **(45,400)** | | (9,568) | | -- |
| Proceeds from maturing investment securities | | **4,413** | | -- | | -- |
| Purchases of premises and equipment, net | | **(777)** | | (491) | | (192) |
| Net cash used in investing activities | | **(230,893)** | | (109,244) | | (144,694) |
| **Cash flows from financing activities** | | | | | | |
| Increase in note payable to AgriBank, FCB, net | | **174,820** | | 54,161 | | 73,081 |
| Patronage distributions paid | | **(28,412)** | | (20,166) | | -- |
| Capital stock and participation certificates retired, net | | **(189)** | | (214) | | (438) |
| Net cash provided by financing activities | | **146,219** | | 33,781 | | 72,643 |
| Net change in cash | | **--** | | -- | | -- |
| Cash at beginning of year | | **--** | | -- | | -- |
| Cash at end of year | **$** | **--** | $ | -- | $ | -- |
| **Supplemental information** | | | | | | |
| Interest paid | **$** | **71,060** | $ | 90,330 | $ | 74,157 |
| Taxes refunded, net | | **(1,116)** | | -- | | (443) |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Farm Credit Illinois, 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 their subsidiaries. In addition, loans that are purchased from other entities are classified as FLCA loans. 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

Farm Credit Illinois, ACA (the Association) and its subsidiaries, Farm Credit Illinois, FLCA and Farm Credit Illinois, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Alexander, Bond, Calhoun, Cass, Champaign, Christian, Clark, Clay, Clinton, Coles, Crawford, Cumberland, DeWitt, Douglas, Edgar, Edwards, Effingham, Fayette, Ford, Franklin, Gallatin, Greene, Hamilton, Hardin, Iroquois, Jackson, Jasper, Jefferson, Jersey, Johnson, Lawrence, Logan, Macon, Macoupin, Madison, Marion, Massac, Menard, Monroe, Montgomery, Morgan, Moultrie, Perry, Piatt, Pope, Pulaski, Randolph, Richland, Saline, Sangamon, Scott, Shelby, St. Clair, Union, Vermillion, Wabash, Washington, Wayne, White, and Williamson in the state of Illinois.

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.

We offer crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals 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 Farm Credit Illinois, 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**.** Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Origination fees, net of related costs, are deferred and recognized over the life of the loan as an adjustment to net interest income. The net amount of loan fees and related origination costs are not material to the Consolidated Financial Statements.

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 have 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 (TDR), 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 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.

**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.

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 loan losses" in the Consolidated Statements of Comprehensive Income, recoveries, and charge-offs.

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

**Investment Securities:** We are authorized to purchase and hold certain types of investments. If we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through Net income in the Consolidated Statements of Comprehensive Income in the period of impairment. The non-credit related component is recognized in other comprehensive income. Purchased premiums and discounts are amortized or accreted using the interest method over the terms of the respective securities. Realized gains and losses are determined using specific identification method and are recognized in current operations.

**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 and is included in "Other assets" in the Consolidated Statements of Condition. 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. All purchases of premises and equipment greater than $5 thousand are capitalized.

**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 the 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. 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 benefits and 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 that is generally paid during the second 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 would be recorded in "Other liabilities" in the Consolidated Statements of Condition and a corresponding loss would be recorded in "(Reversal of) provision for loan losses" in the Consolidated Statements of Comprehensive Income. However, no such reserve was necessary as of December 31, 2020, 2019, or 2018.

**Cash:** For purposes of reporting cash flow, cash includes cash on hand.

**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. |
| 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 our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which 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 our 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 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 | **$ 2,468,119** | **55.5%** | $ 2,489,082 | 58.1% | $ 2,412,305 | 57.5% |
| Production and intermediate-term | **742,873** | **16.7%** | 706,237 | 16.5% | 747,936 | 17.8% |
| Agribusiness | **932,399** | **21.0%** | 815,280 | 19.0% | 788,801 | 18.8% |
| Other | **305,177** | **6.8%** | 275,818 | 6.4% | 244,011 | 5.9% |
| Total | **$ 4,448,568** | **100.0%** | $ 4,286,417 | 100.0% | $ 4,193,053 | 100.0% |

The other category is primarily composed rural infrastructure and agricultural export finance related loans and certain assets originated under the mission related investment authority.

### 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.

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 | **$ --** | **$ (365,596)** | **$ 123,103** | **$ (325)** | **$ 126,543** | **$ --** | **$ 249,646** | **$ (365,921)** |
| Production and intermediate-term | **--** | **(131,540)** | **218,969** | **--** | **--** | **--** | **218,969** | **(131,540)** |
| Agribusiness | **--** | **(851)** | **844,073** | **(3,222)** | **--** | **--** | **844,073** | **(4,073)** |
| Other | **--** | **--** | **292,687** | **--** | **--** | **--** | **292,687** | **--** |
| Total | **$ --** | **$ (497,987)** | **$ 1,478,832** | **$ (3,547)** | **$ 126,543** | **$ --** | **$ 1,605,375** | **$ (501,534)** |

| | 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 | $ -- | $ (186,634) | $ 91,347 | $ (701) | $ 164,178 | $ -- | $ 255,525 | $ (187,335) |
| Production and intermediate-term | -- | (117,675) | 197,870 | -- | -- | -- | 197,870 | (117,675) |
| Agribusiness | -- | (1,010) | 727,859 | (5,282) | 12,556 | -- | 740,415 | (6,292) |
| Other | -- | -- | 263,489 | -- | -- | -- | 263,489 | -- |
| Total | $ -- | $ (305,319) | $ 1,280,565 | $ (5,983) | $ 176,734 | $ -- | $ 1,457,299 | $ (311,302) |

| | 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 | $ -- | $ (222,278) | $ 66,289 | $ (454) | $ 141,466 | $ -- | $ 207,755 | $ (222,732) |
| Production and intermediate-term | -- | (110,655) | 185,015 | -- | -- | -- | 185,015 | (110,655) |
| Agribusiness | -- | (1,133) | 715,302 | (5,846) | 11,142 | -- | 726,444 | (6,979) |
| Other | -- | -- | 226,119 | -- | -- | -- | 226,119 | -- |
| Total | $ -- | $ (334,066) | $ 1,192,725 | $ (6,300) | $ 152,608 | $ -- | $ 1,345,333 | $ (340,366) |

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 | **$ 2,394,329** | **95.7%** | **$ 61,614** | **2.5%** | **$ 46,781** | **1.8%** | **$ 2,502,724** | **100.0%** |
| Production and intermediate-term | **681,624** | **90.4%** | **49,159** | **6.5%** | **23,397** | **3.1%** | **754,180** | **100.0%** |
| Agribusiness | **897,118** | **95.9%** | **23,767** | **2.5%** | **14,514** | **1.6%** | **935,399** | **100.0%** |
| Other | **305,412** | **100.0%** | **--** | **--** | **--** | **--** | **305,412** | **100.0%** |
| Total | **$ 4,278,483** | **95.1%** | **$ 134,540** | **3.0%** | **$ 84,692** | **1.9%** | **$ 4,497,715** | **100.0%** |

| As of December 31, 2019 | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | $ 2,427,699 | 96.0% | $ 40,695 | 1.6% | $ 59,849 | 2.4% | $ 2,528,243 | 100.0% |
| Production and intermediate-term | 661,119 | 91.8% | 32,036 | 4.4% | 27,013 | 3.8% | 720,168 | 100.0% |
| Agribusiness | 790,906 | 96.6% | 4,967 | 0.6% | 22,518 | 2.8% | 818,391 | 100.0% |
| Other | 268,807 | 97.3% | 1,747 | 0.6% | 5,709 | 2.1% | 276,263 | 100.0% |
| Total | $ 4,148,531 | 95.6% | $ 79,445 | 1.8% | $ 115,089 | 2.6% | $ 4,343,065 | 100.0% |

| As of December 31, 2018 | Acceptable | | Special Mention | | Substandard/ Doubtful | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | $ 2,364,782 | 96.6% | $ 24,521 | 1.0% | $ 59,970 | 2.4% | $ 2,449,273 | 100.0% |
| Production and intermediate-term | 707,036 | 92.8% | 23,563 | 3.1% | 30,987 | 4.1% | 761,586 | 100.0% |
| Agribusiness | 771,380 | 97.4% | 2,583 | 0.3% | 18,356 | 2.3% | 792,319 | 100.0% |
| Other | 239,384 | 97.9% | 5,060 | 2.1% | -- | -- | 244,444 | 100.0% |
| Total | $ 4,082,582 | 96.1% | $ 55,727 | 1.3% | $ 109,313 | 2.6% | $ 4,247,622 | 100.0% |

Note: Accruing loans include accrued interest receivable.

**Aging Analysis of Loans**

| (in thousands) **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 | **$ 7,650** | **$ 1,768** | **$ 9,418** | **$ 2,493,306** | **$ 2,502,724** | **$ 1,345** |
| Production and intermediate-term | **639** | **109** | **748** | **753,432** | **754,180** | **--** |
| Agribusiness | **--** | **--** | **--** | **935,399** | **935,399** | **--** |
| Other | **--** | **--** | **--** | **305,412** | **305,412** | **--** |
| Total | **$ 8,289** | **$ 1,877** | **$ 10,166** | **$ 4,487,549** | **$ 4,497,715** | **$ 1,345** |

| 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 | $ 3,573 | $ 2,958 | $ 6,531 | $ 2,521,712 | $ 2,528,243 | $ 2,201 |
| Production and intermediate-term | 431 | 409 | 840 | 719,328 | 720,168 | -- |
| Agribusiness | -- | 17 | 17 | 818,374 | 818,391 | -- |
| Other | -- | -- | -- | 276,263 | 276,263 | -- |
| Total | $ 4,004 | $ 3,384 | $ 7,388 | $ 4,335,677 | $ 4,343,065 | $ 2,201 |

| 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 | $ 13,939 | $ 2,207 | $ 16,146 | $ 2,433,127 | $ 2,449,273 | $ -- |
| Production and intermediate-term | 1,319 | 744 | 2,063 | 759,523 | 761,586 | -- |
| Agribusiness | -- | -- | -- | 792,319 | 792,319 | -- |
| Other | 890 | -- | 890 | 243,554 | 244,444 | -- |
| Total | $ 16,148 | $ 2,951 | $ 19,099 | $ 4,228,523 | $ 4,247,622 | $ -- |

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 | $ 3,309 | $ 3,171 | $ 3,383 |
| Past due | 532 | 1,221 | 3,252 |
| Total nonaccrual loans | 3,841 | 4,392 | 6,635 |
| Accruing restructured loans | 36 | 40 | 67 |
| Accruing loans 90 days or more past due | 1,345 | 2,201 | -- |
| Total risk loans | $ 5,222 | $ 6,633 | $ 6,702 |
| Volume with specific allowance | $ 532 | $ 104 | $ 2,273 |
| Volume without specific allowance | 4,690 | 6,529 | 4,429 |
| Total risk loans | $ 5,222 | $ 6,633 | $ 6,702 |
| Total specific allowance | $ 220 | $ 104 | $ 713 |

| For the year ended December 31 | 2020 | 2019 | 2018 |
|---|---|---|---|
| Income on accrual risk loans | $ 50 | $ 42 | $ 64 |
| Income on nonaccrual loans | 468 | 340 | 394 |
| Total income on risk loans | $ 518 | $ 382 | $ 458 |
| Average risk loans | $ 4,920 | $ 7,156 | $ 7,202 |

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 | $ 3,700 | $ 3,884 | $ 3,540 |
| Production and intermediate-term | 141 | 491 | 831 |
| Agribusiness | -- | 17 | 2,264 |
| Total | $ 3,841 | $ 4,392 | $ 6,635 |

**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 | $ 423 | $ 410 | $ 111 | $ 85 | $ -- |
| Production and intermediate-term | 109 | 108 | 109 | 141 | -- |
| Agribusiness | -- | -- | -- | 3 | -- |
| Total | $ 532 | $ 518 | $ 220 | $ 229 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 4,622 | $ 4,527 | $ -- | $ 4,315 | $ 479 |
| Production and intermediate-term | 68 | 737 | -- | 376 | 39 |
| Agribusiness | -- | 792 | -- | -- | -- |
| Total | $ 4,690 | $ 6,056 | $ -- | $ 4,691 | $ 518 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 5,045 | $ 4,937 | $ 111 | $ 4,400 | $ 479 |
| Production and intermediate-term | 177 | 845 | 109 | 517 | 39 |
| Agribusiness | -- | 792 | -- | 3 | -- |
| Total | $ 5,222 | $ 6,574 | $ 220 | $ 4,920 | $ 518 |

| | 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 | 87 | 88 | 87 | 137 | -- |
| Agribusiness | 17 | 302 | 17 | 1,362 | -- |
| Total | $ 104 | $ 390 | $ 104 | $ 1,499 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 6,085 | $ 6,033 | $ -- | $ 4,959 | $ 112 |
| Production and intermediate-term | 444 | 789 | -- | 698 | 270 |
| Agribusiness | -- | 641 | -- | -- | -- |
| Total | $ 6,529 | $ 7,463 | $ -- | $ 5,657 | $ 382 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 6,085 | $ 6,033 | $ -- | $ 4,959 | $ 112 |
| Production and intermediate-term | 531 | 877 | 87 | 835 | 270 |
| Agribusiness | 17 | 943 | 17 | 1,362 | -- |
| Total | $ 6,633 | $ 7,853 | $ 104 | $ 7,156 | $ 382 |

| | 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 | 9 | 9 | 9 | 32 | -- |
| Agribusiness | 2,264 | 2,284 | 704 | 307 | -- |
| Total | $ 2,273 | $ 2,293 | $ 713 | $ 339 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 3,540 | $ 3,438 | $ -- | $ 3,909 | $ 156 |
| Production and intermediate-term | 889 | 1,293 | -- | 2,954 | 302 |
| Agribusiness | -- | -- | -- | -- | -- |
| Total | $ 4,429 | $ 4,731 | $ -- | $ 6,863 | $ 458 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 3,540 | $ 3,438 | $ -- | $ 3,909 | $ 156 |
| Production and intermediate-term | 898 | 1,302 | 9 | 2,986 | 302 |
| Agribusiness | 2,264 | 2,284 | 704 | 307 | -- |
| Total | $ 6,702 | $ 7,024 | $ 713 | $ 7,202 | $ 458 |

[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, and acquisition costs 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 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 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 | **$ 518** | **$ 518** | $ -- | $ -- | $ -- | $ -- |
| Production and intermediate-term | **49** | **49** | -- | -- | 78 | 78 |
| Total | **$ 567** | **$ 567** | $ -- | $ -- | $ 78 | $ 78 |

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, and acquisition costs and may also reflect a previous direct charge-off of the investment.

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

There were no TDRs that defaulted during the years ended December 31, 2020 and 2019, in which the modification was within twelve months of the respective reporting period. We had TDRs in the production and intermediate-term loan category of $19 thousand that defaulted during the year ended December 31, 2018, in which the modifications were within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Accrual status: | | | |
| Real estate mortgage | **$ --** | $ -- | $ -- |
| Production and intermediate-term | **36** | 40 | 67 |
| Total TDRs in accrual status | **$ 36** | $ 40 | $ 67 |
| Nonaccrual status: | | | |
| Real estate mortgage | **$ 512** | $ -- | $ -- |
| Production and intermediate-term | **40** | 10 | 9 |
| Total TDRs in nonaccrual status | **$ 552** | $ 10 | $ 9 |
| Total TDRs: | | | |
| Real estate mortgage | **$ 512** | $ -- | $ -- |
| Production and intermediate-term | **76** | 50 | 76 |
| Total TDRs | **$ 588** | $ 50 | $ 76 |

There were no 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 | **$ 8,699** | $ 8,798 | $ 7,111 |
| (Reversal of) provision for loan losses | **(2,261)** | 672 | 1,952 |
| Loan recoveries | **154** | 20 | 478 |
| Loan charge-offs | **(355)** | (791) | (743) |
| Balance at end of year | **$ 6,237** | $ 8,699 | $ 8,798 |

**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 | **$ 1,266** | **$ 2,001** | **$ 4,791** | **$ 641** | **$ 8,699** |
| Reversal of loan losses | **(106)** | **(119)** | **(1,888)** | **(148)** | **(2,261)** |
| Loan recoveries | **--** | **19** | **135** | **--** | **154** |
| Loan charge-offs | **--** | **(355)** | **--** | **--** | **(355)** |
| Balance as of December 31, 2020 | **$ 1,160** | **$ 1,546** | **$ 3,038** | **$ 493** | **$ 6,237** |
| Ending balance: individually evaluated for impairment | **$ 111** | **$ 109** | **$ --** | **$ --** | **$ 220** |
| Ending balance: collectively evaluated for impairment | **$ 1,049** | **$ 1,437** | **$ 3,038** | **$ 493** | **$ 6,017** |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2020 | **$ 2,502,724** | **$ 754,180** | **$ 935,399** | **$ 305,412** | **$ 4,497,715** |
| Ending balance: individually evaluated for impairment | **$ 5,045** | **$ 177** | **$ --** | **$ --** | **$ 5,222** |
| Ending balance: collectively evaluated for impairment | **$ 2,497,679** | **$ 754,003** | **$ 935,399** | **$ 305,412** | **$ 4,492,493** |

| | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2018 | $ 1,239 | $ 2,923 | $ 4,139 | $ 497 | $ 8,798 |
| Provision for (reversal of) loan losses | 27 | (932) | 1,433 | 144 | 672 |
| Loan recoveries | -- | 20 | -- | -- | 20 |
| Loan charge-offs | -- | (10) | (781) | -- | (791) |
| Balance as of December 31, 2019 | $ 1,266 | $ 2,001 | $ 4,791 | $ 641 | $ 8,699 |
| Ending balance: individually evaluated for impairment | $ -- | $ 87 | $ 17 | $ -- | $ 104 |
| Ending balance: collectively evaluated for impairment | $ 1,266 | $ 1,914 | $ 4,774 | $ 641 | $ 8,595 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2019 | $ 2,528,243 | $ 720,168 | $ 818,391 | $ 276,263 | $ 4,343,065 |
| Ending balance: individually evaluated for impairment | $ 6,085 | $ 531 | $ 17 | $ -- | $ 6,633 |
| Ending balance: collectively evaluated for impairment | $ 2,522,158 | $ 719,637 | $ 818,374 | $ 276,263 | $ 4,336,432 |

| | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2017 | $ 1,175 | $ 3,537 | $ 1,990 | $ 409 | $ 7,111 |
| Provision for (reversal of) loan losses | 249 | (534) | 2,149 | 88 | 1,952 |
| Loan recoveries | 1 | 477 | -- | -- | 478 |
| Loan charge-offs | (186) | (557) | -- | -- | (743) |
| Balance as of December 31, 2018 | $ 1,239 | $ 2,923 | $ 4,139 | $ 497 | $ 8,798 |
| Ending balance: individually evaluated for impairment | $ -- | $ 9 | $ 704 | $ -- | $ 713 |
| Ending balance: collectively evaluated for impairment | $ 1,239 | $ 2,914 | $ 3,435 | $ 497 | $ 8,085 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2018 | $ 2,449,273 | $ 761,586 | $ 792,319 | $ 244,444 | $ 4,247,622 |
| Ending balance: individually evaluated for impairment | $ 3,540 | $ 898 | $ 2,264 | $ -- | $ 6,702 |
| Ending balance: collectively evaluated for impairment | $ 2,445,733 | $ 760,688 | $ 790,055 | $ 244,444 | $ 4,240,920 |

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

## NOTE 4: INVESTMENT IN AGRIBANK

During 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. Refer to Note 10 for additional information on our investment in AgriBank as of December 31, 2020, 2019, and 2018, respectively.

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: INVESTMENT SECURITIES

We held investment securities of $49.8 million and $9.6 million at December 31, 2020 and 2019, respectively. Our investment securities consisted of securities backed by pools of loans guaranteed by the Small Business Administration (SBA). All of our investment securities were fully guaranteed by the SBA at December 31, 2020 and 2019. We held no investment securities in 2018.

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2020 and 2019, we have not recognized any impairment on our investment portfolio.

Our investments are asset-backed securities (ABS), which are generally shorter-term investments.

**Additional Investment Securities Information**

| (dollars in thousands)<br>As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Amortized cost | **$ 49,840** | $ 9,559 | $ -- |
| Unrealized gains | **482** | 14 | -- |
| Unrealized losses | **(35)** | (11) | -- |
| Fair value | **$ 50,287** | $ 9,562 | $ -- |
| Weighted average yield | **1.8%** | 2.1% | -- |

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $827 thousand and $8 thousand in 2020 and 2019, respectively. Premiums paid to purchase the investment are not guaranteed and are amortized as a reduction of interest income.

**Contractual Maturities of Investment Securities**

| (in thousands)<br>**As of December 31, 2020** | Amortized Cost |
|---|---|
| Five to ten years | **$ 32,993** |
| More than ten years | **16,847** |
| Total | **$ 49,840** |

Actual maturity of the held-to-maturity investment securities may be less than contractual maturity due to prepayments.

## NOTE 6: 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)<br>As of December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Line of credit | **$ 4,500,000** | $ 4,500,000 | $ 4,500,000 |
| Outstanding principal under the line of credit | **3,616,253** | 3,441,433 | 3,387,272 |
| Interest rate | **1.2%** | 2.5% | 2.7% |

Our note payable is scheduled to mature on July 31, 2022. 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 7: MEMBERS' EQUITY

### Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us 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 $1 thousand, whichever is less. The purchase of a $5.00 participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation unless guaranteed by a federal program or required by the title company at closing, in which case cash is collected for the value of the stock. We retain a first lien on the stock or participation certificates owned by customers.

## 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 | **20.0%** | 20.0% | 18.9% | 4.5% | 2.5% | 7.0% |
| Tier 1 capital ratio | **20.0%** | 20.0% | 18.9% | 6.0% | 2.5% | 8.5% |
| Total capital ratio | **20.1%** | 20.2% | 19.2% | 8.0% | 2.5% | 10.5% |
| Permanent capital ratio | **20.0%** | 20.1% | 19.0% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 leverage ratio | **21.3%** | 21.4% | 20.3% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **23.3%** | 23.0% | 21.6% | 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 C common stock (at-risk) | **1,529,035** | 1,495,238 | 1,506,390 |
| Participation certificates (at-risk) | **2,182** | 2,554 | 4,529 |

Only holders of Class C 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 remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- First, pro rata to all classes of preferred stock (if any) at par value
- Second, to the holders pro rata of all classes of common stock and participation certificates at par value

In the event of impairment, losses will be absorbed pro rata by all classes of common stock and participation certificates then by preferred stock, if any.

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 $42.7 million, $28.1 million, and $20.0 million at December 31, 2020, 2019, and 2018, respectively. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements. All patronage distributions must be paid on an equitable and nondiscriminatory basis as determined by the Board of Directors and will be paid within eight-and-a-half months after year end. Patronage distributions are expected to be paid in cash in 2021. Patronage distributions accrued in 2020, as declared by the Board, include a one-time $10.0 million preseason patronage distribution to be paid in the first quarter after year end, in addition to traditional annual cash patronage to be paid in the second quarter after year end. Preseason patronage declared serves to help members with the impact of the COVID-19 pandemic.

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 8: INCOME TAXES

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in March 2020 in response to the COVID-19 pandemic. The CARES Act, among other things, allows net operating losses (NOLs) incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years, resulting in a refund at the 35% federal statutory tax rate in effect at that time. The effect of this revaluation on net deferred tax assets was recognized in our (benefit from) provision for income taxes for the year ended December 31, 2020.

### (Benefit from) Provision for Income Taxes

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

(dollars in thousands)

| For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ (1,744)** | $ (15) | $ 61 |
| State | **(383)** | -- | -- |
| Total current | **$ (2,127)** | $ (15) | $ 61 |
| Deferred: | | | |
| Federal | **$ 308** | $ 9 | $ (1,443) |
| State | **(271)** | (329) | (364) |
| (Decrease) increase in valuation allowance | **(1,278)** | 1,440 | 542 |
| Total deferred | **(1,241)** | 1,120 | (1,265) |
| (Benefit from) provision for income taxes | **$ (3,368)** | $ 1,105 | $ (1,204) |
| Effective tax rate | **(4.0%)** | 1.4% | (1.7%) |

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

(in thousands)

| For the year ended December 31 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Federal tax at statutory rates | **$ 17,796** | $ 16,063 | $ 14,959 |
| State tax, net | **(222)** | (99) | (417) |
| Effect of non-taxable entity | **(18,417)** | (16,341) | (16,125) |
| (Decrease) increase in valuation allowance | **(1,278)** | 1,440 | 542 |
| Other | **(1,247)** | 42 | (163) |
| (Benefit from) provision for income taxes | **$ (3,368)** | $ 1,105 | $ (1,204) |

### 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 | $ | **532** | $ | 714 | $ | 1,211 |
| Postretirement benefit accrual | | **403** | | 406 | | 409 |
| Net operating loss carryforward | | **2,050** | | 1,863 | | 542 |
| Accrued incentive | | **727** | | 543 | | 530 |
| Accrued patronage income not received | | **(298)** | | (288) | | -- |
| AgriBank 2002 allocated stock | | **(390)** | | (390) | | (390) |
| Accrued pension asset | | **(1,129)** | | (841) | | (553) |
| Other assets | | **50** | | -- | | -- |
| Other liabilities | | **--** | | (25) | | (87) |
| Total deferred tax assets | | **1,945** | | 1,982 | | 1,662 |
| Valuation allowance | | **(704)** | | (1,982) | | (542) |
| Deferred tax assets, net | **$** | **1,241** | $ | -- | $ | 1,120 |
| Gross deferred tax assets | **$** | **3,762** | $ | 3,526 | $ | 2,692 |
| Gross deferred tax liabilities | **$** | **(1,817)** | $ | (1,544) | $ | (1,030) |

A valuation reserve for the deferred tax assets was necessary at December 31, 2020 because we determined that the net deferred tax asset was not realizable due to our minimal projected future tax liability, primarily as a result of our patronage program.

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 $20.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $979.9 million 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 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 9: 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 | | **2,105** | | 1,724 | | 2,418 |
| Contributions by participating employers | | **90,000** | | 90,000 | | 90,000 |
| Our allocated share of contributions | | **4,383** | | 4,191 | | 4,216 |

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 $4.1 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 | **$** | **1,182** | $ | 805 | $ | 818 |
| For the year ended December 31 | | **2020** | | 2019 | | 2018 |
| Our allocated share of plan expenses | **$** | **140** | $ | 152 | $ | 191 |
| Our cash contributions | | **88** | | 90 | | 148 |

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 these plans, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $2.0 million, $1.8 million, and $1.7 million in 2020, 2019, and 2018, respectively. These expenses were equal to our cash contributions for each year.

## NOTE 10: 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 | **$ 36,983** | $ 33,356 | $ 34,257 |
| For the year ended December 31 | **2020** | 2019 | 2018 |
| Advances to related parties | **$ 11,830** | $ 11,043 | $ 8,394 |
| Repayments by related parties | **9,945** | 7,195 | 7,756 |

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. Information in the preceding chart are related to those considered related parties at each respective year end.

As discussed in Note 6, 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, which includes a partnership distribution from AgDirect, LLP, was $30.7 million, $27.4 million, and $24.7 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 $466 thousand, $409 thousand, and $482 thousand 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 various services from AgriBank and SunStream Business Services (SunStream), a separate service entity formed on April 1, 2020. AgriBank continues to provide financial reporting services while Sunstream provides tax reporting services, insurance, and various ancillary business and technology services. 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.

Beginning in 2018, 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 $9.9 million, $9.8 million, and $10.3 million as of December 31, 2020, 2019, and 2018, respectively. The total cost of services we purchased from FPI were $7.8 million, $7.6 million, and $9.4 million in 2020, 2019, and 2018, respectively.

**Additional Related Party Information**

| (in thousands)<br>As of December 31 | | 2020 | | 2019 | | 2018 |
|---|---|---|---|---|---|---|
| Investment in AgriBank | **$** | **137,515** | $ | 118,610 | $ | 109,647 |
| Investment in AgDirect, LLP | | **11,494** | | 8,369 | | 7,967 |
| Investment in Foundations | | **29** | | 29 | | 29 |
| Investment in FPI | | **9,889** | | 9,804 | | 10,271 |
| For the year ended December 31 | | **2020** | | 2019 | | 2018 |
| AgriBank District purchased services | **$** | **781** | $ | 958 | $ | 1,281 |
| FPI purchased services | | **7,801** | | 7,594 | | 9,437 |

## NOTE 11: 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 $1.1 billion. Additionally, we had $17.3 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. We evaluated outstanding commitments and no allowances was deemed material.

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. As of December 31, 2020, our total commitment is $12.0 million, of which $9.9 million is unfunded, with varying commitment end dates through December 2030, which is included in "Other assets" in the Consolidated Statements of Condition. Certain commitments may have an option to extend under certain circumstances.

## NOTE 12: 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)

| **As of December 31, 2020** | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | **$ --** | **$ --** | **$ 327** | **$ 327** |

| As of December 31, 2019 | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | $ -- | $ -- | $ -- | $ -- |

| As of December 31, 2018 | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | $ -- | $ -- | $ 1,638 | $ 1,638 |

### 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.

## NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 15, 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

*Farm Credit Illinois, ACA*

*(Unaudited)*

### Description of Business

General information regarding the business 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 |
|---|---|---|
| Belleville | Owned | Held for Sale[1] |
| Decatur | Owned | Branch |
| Effingham | Owned | Branch |
| Highland | Owned | Branch |
| Jacksonville | Owned | Branch |
| Jerseyville | Owned | Branch |
| Marion | Owned | Branch |
| Lawrenceville | Owned | Branch |
| Mahomet | Owned | Headquarters/Branch |
| Mt. Vernon | Owned | Branch |
| Paris | Owned | Branch |
| Red Bud | Owned | Branch |
| Sherman | Owned | Branch |
| Taylorville | Owned | Branch |
| Watseka | Owned | Branch |

[1]The Belleville building was sold during 2017, however there is an attached lot that remains for sale.

### Legal Proceedings

Information regarding legal proceedings is discussed in Notes 11 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% | 16.8% | 15.9% | 14.7% |
| Total surplus ratio | 16.4% | 16.6% | 15.7% | 14.4% |
| Core surplus ratio | 16.4% | 16.6% | 15.7% | 14.4% |

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 7 to the Consolidated Financial Statements in this Annual Report.

### Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9, and 11 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:

- **Risk Committee:** The primary function of the Risk Committee is to assist the Board of Directors in fulfilling its fiduciary responsibilities relative to risk in non-financial areas that go beyond the authority of the Audit Committee. This includes ongoing monitoring of the Association's risk profile, conformance with the Association's risk appetite, and adherence to risk management policies and procedures. The Risk Committee's role is one of oversight, recognizing management is responsible for designing, implementing and maintaining an effective Enterprise Risk Management program.
- **Audit Committee:** The purpose of the Audit Committee is to oversee financial reporting, the adequacy of our internal control systems, the scope of our internal audit program, the independence of outside auditors, and the processes for monitoring compliance with laws and regulations and the code of ethics. The Audit Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities.
- **Compensation Committee:** The Compensation Committee assists the Board of Directors in fulfilling its responsibility for oversight of the compensation plan for senior officers and employees of the Association. The Association's compensation programs are to be designed to attract and retain the best personnel to allow the Association to achieve its goals and maintain its competitive posture.
- **Executive Committee:** The Executive Committee shall consult with the Association CEO to identify and prioritize issues to be presented to the full Board and approve the Board meeting agenda. Other responsibilities of the Executive Committee include approval of the CEO's expense report and oversight of the business planning process.
- **Governance Committee:** The primary function of the Governance Committee is to assist the Board of Directors in fulfilling its fiduciary responsibilities relating to governance of the Association, including Board organization, membership and function; the nomination and election process for Board and Nominating Committee members; Board committee structure and oversight; knowledge of and adherence to prescribed Standards of Conduct; annual self-evaluation of Board performance; and Board training opportunities.

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

| Name | Term | Principal occupation and other business affiliations |
|---|---|---|
| **Clayton Bloome**[4]<br>Service Began: 2017 | 2017-2020 | **Principal Occupation:**<br>Self-employed grain farmer<br>**Other Affiliations:**<br>Director: Rural Electric Convenience Cooperative |
| **Marc Bremer**<br>Service Began: 2020 | 2020-2023 | **Principal Occupation:**<br>Self-employed grain and livestock farmer<br>Owner Bremer Brothers Farm LLC |
| **Kent Brinkmann**[1]<br>Service Began: 1998 | 2018-2021 | **Principal Occupation:**<br>Self-employed grain farmer<br>**Other Affiliations:**<br>President: Carlyle FFA Alumni |
| **Adam Brown**[1]<br>Service Began: 2020 | 2020-2023 | **Principal Occupation:**<br>Self-employed grain farmer - owner of B&B Farms<br>Former Legislator - State of Illinois<br>**Other Affiliations:**<br>Director/Treasurer: Macon County Farm Bureau |
| **Rodney Byars** [2] [4]<br>Service Began: April 2020 | 2020 | **Principal Occupation:**<br>Self-employed grain farmer and Farm Manager<br>Co-Owner Byars Bros., Inc<br>Co-Owner Rodney Byars Family Partnership<br>**Other Affiliations:**<br>Director/President: Wabash Communications Cooperative (related to telecommunications) |
| **Mike Carls**<br>Service Began: 2014 | 2018-2021 | **Principal Occupation:**<br>Self-employed grain farmer |
| **Michael Donohoe**[1]<br>Appointed Director<br>Service Began: 2019 | 2019-2022 | **Principal Occupation:**<br>Associate Professor of Accountancy at the University of Illinois at Urbana-Champaign<br>**Other Affiliations:**<br>Director & Officer: Pixels by Emily Donohoe, Inc. (photography studio)<br>Director & Officer: Sunchaser Consulting Corp. (expert witness and litigation consulting) |

| Name | Term | Principal occupation and other business affiliations |
|---|---|---|
| **Wesley Durbin**<br>Vice Chairperson<br><br><br>Service Began: 2010 | 2019-2022 | **Principal Occupation:**<br>Self-employed grain and livestock farmer<br>**Other Affiliations:**<br>Treasurer: Shelby County Pork Producers<br>Director: Shelby County Land Assessment |
| **David Haase**[(1)]<br><br><br><br><br><br><br>Service Began: 2017 | 2018-2021 | **Principal Occupation:**<br>Self-employed grain farmer<br>**Other Affiliations:**<br>Director: AgriBank District Farm Credit Council, a trade association representing the AgriBank District<br>Director/President: Iroquois West Community Unit School District #10, a K-12 public school<br>Director: Illinois Association of Drainage Districts, an education and policy advocacy group<br>Director: Ford-Iroquois Farm Bureau, farm advocacy group<br>Director: LaHogue Drainage District #1 |
| **Lisa Helmink**[(3)]<br><br>Service Began: 2017 | 2017-2020 | **Principal Occupation:**<br>Self-employed grain and livestock farmer<br>Clinic Manager: Clinton County Veterinary Services, Ltd. |
| **Steve Hettinger**[(3)]<br><br><br><br><br><br>Service Began: 2018 | 2018-2020 | **Principal Occupation:**<br>Self-employed grain farmer<br>Owner of seed dealership<br>Co-owner of Precision Planting<br>Manages Drone Scouting LLC<br>**Other Affiliations:**<br>Director: Premier Cooperative, a grain elevator |
| **Kevin Miller**[(1)]<br><br><br><br><br><br><br>Service Began: 2012 | 2020-2023 | **Principal Occupation:**<br>Self-employed grain farmer<br>**Other Affiliations:**<br>Director: South American Soy, a Brazilian farm investment group<br>Director: Lutheran Care Center<br>Chairperson: North Island Creek Drainage District<br>Secretary/Treasurer: South Island Creek Drainage District<br>Chairperson: Rotary Charities Foundation of Effingham |
| **Eric J. Mosbey**<br>Chairperson<br><br>Service Began: 2015 | 2019-2022 | **Principal Occupation:**<br>Self-employed grain farmer<br>General Manager: Lincolnland Agri-Energy, LLC<br>President: Mosbey Farms, Inc. |
| **K. Bridget Schneider**[(4)]<br>Appointed Director<br><br>Service Began: 2010 | 2017-2020 | **Principal Occupation:**<br>Certified Financial Planner™ Professional<br>Managing Member: Connections Financial Advisors, LLC<br>Managing Member: G&S Properties of Illinois, LLC |

[(1)]Member of the Audit Committee

[(2)] Appointed by the Board to serve the remaining year of a director's term who had resigned from the Board in 2019.

[(3)]Re-elected in January 2021 to a term that expires December 2024

[(4)]Term ended as of December 31, 2020

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $600 per day. Board members also receive a $3.5 thousand per quarter retainer fee. The Vice Chairperson receives a $4.0 thousand per quarter retainer fee. The Chairperson receives a $4.5 thousand per quarter.

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

| Name | Number of Days Served: Board Meetings | Number of Days Served: Other Official Activities | Compensation Paid for Service on Audit Committee | Compensation Paid for Service on Executive Committee | Compensation Paid for Service on Compensation Committee | Compensation Paid for Service on Risk Committee | Total Compensation Paid in 2020 |
|---|---|---|---|---|---|---|---|
| Clayton Bloome[2] | 10.0 | 19.0 | $ - | $ 3,600 | $ 600 | $ - | $ 26,400 |
| Marc Bremer[1] | 9.0 | 11.0 | - | - | - | 1,500 | 31,000 |
| Kent Brinkmann | 9.0 | 15.0 | 2,700 | - | - | - | 29,300 |
| Adam Brown[1] | 9.0 | 12.0 | 1,200 | - | - | - | 31,000 |
| Rodney Byars[2][3] | 7.0 | 10.0 | - | - | - | 1,800 | 17,700 |
| Mike Carls | 9.0 | 10.0 | - | - | - | 1,800 | 26,000 |
| Michael Donohoe | 9.0 | 11.0 | 2,400 | - | - | - | 23,000 |
| Wesley Durbin | 9.0 | 20.0 | - | 3,000 | - | - | 28,300 |
| David Haase | 9.0 | 15.0 | 1,200 | - | - | 1,200 | 32,000 |
| Lisa Helmink | 10.0 | 20.0 | - | 3,600 | - | - | 30,500 |
| Steve Hettinger | 9.0 | 20.0 | - | 2,700 | - | - | 30,050 |
| Kevin Miller | 9.0 | 15.0 | 2,700 | - | - | - | 30,950 |
| Eric Mosbey | 9.0 | 21.0 | - | 3,300 | - | - | 37,200 |
| K. Bridget Schneider[2] | 9.0 | 18.0 | 600 | 3,000 | - | - | 19,800 |
| | | | | | | | $ 393,200 |

[1]Newly elected in 2020

[2]Term ended as of December 31, 2020

[3]Newly Appointed in 2020

## Senior Officers

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

| Name and Position | Business experience and other business affiliations |
|---|---|
| **Aaron S. Johnson**<br>President/Chief Executive Officer | **Business experience:**<br>President and Chief Executive Officer since January 2020<br>Interim President and Chief Executive Officer from September 2019 to December 2019<br>Executive Vice President and Chief Operations Officer from 2014-2019<br>**Other business affiliations:**<br>Trustee, Vice Chair: Farm Credit Foundations Trust committee<br>Board of Directors: Farm Credit Financial Partners Inc. |
| **Stephen W. Carson**<br>Executive Vice President and Chief Risk Officer | **Business experience:**<br>Executive Vice President & Chief Risk Officer since January 2020<br>Senior Vice President and Chief Risk Management Officer since January 2019 to December 2019<br>Senior Vice President and Chief Credit Officer from February 2017 to January 2019<br>Senior Vice President of Credit from 2014-2017<br>**Other business affiliations:**<br>Director: ProPartners Financial<br>Board Member: Compeer Capital Markets Group |
| **Kelly D. Loschen**<br>Senior Vice President and Chief Financial Officer | **Business experience:**<br>Senior Vice President and Chief Financial Officer since January 2016<br>Public Accountant: Martin, Hood, Friese & Associates from 2000-2016<br>**Other business affiliations:**<br>Board of Directors, Treasurer, Finance Committee: Parkland College Foundation |
| **Jackie Martinie**<br>Senior Vice President and Chief Credit Officer | **Business experience:**<br>Senior Vice President and Chief Credit Officer since January 2019<br>Vice President and Senior Credit Manager from 2016-2019<br>Vice President, Credit Services and Large & AgriBusiness Team Lead from 2015-2016 |
| **Robert H. Rhode**<br>Senior Vice President and General Counsel | **Business experience:**<br>Senior Vice President and General Counsel since January 2014 |
| **Shaun Murray**<br>Senior Vice President and Chief Operating Officer | **Business experience:**<br>Senior Vice President and Chief Operating Officer since January 2019<br>Regional Vice President Lending from 2010-2019 |
| **Ryan W. Berg**<br>Senior Vice President and Chief Administrative Officer | **Business experience:**<br>Senior Vice President and Chief Administrative Officer since November 2014<br>**Other business affiliations:**<br>Board of Directors: Farm Credit Financial Partners Inc. |

## Senior Officer Compensation

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

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

**Base Salary:** The CEO and senior officer base salaries reflect the officer’s experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

**Short-term Incentives:** The CEO and senior officer incentives are paid annually based on performance criteria established by our Board of Directors. The criteria are related to the overall association performance and corporate goals and for 2020, 2019, and 2018 included risk score, net interest margin, volume, member experience score, and efficiency ratio. We calculate the incentives after the end of the plan year (the plan year is the calendar year). We pay out the incentives within 90 days of year end. In addition, the CEO and senior officers, and generally all employees are eligible for discretionary bonuses based on performance on special projects, service awards based on years of service, and retirement awards.

**Long-term Incentives:** We have a long-term incentive program beginning in 2019, which aligns the senior officers and other key individuals to the Association's long-term business objectives, while providing the opportunity for a competitive market-based total compensation package. There is no long-term incentive program in place for the CEO. The Board of Directors has delegated administration of the plan to the CEO and authority to set independent three-year performance objectives at the beginning of each plan year. While the performance objectives may change from plan to plan, the objectives currently include efficiency ratio, credit quality, earning asset growth, and volume. In addition, the Board of Directors, at its sole discretion, may amend or terminate the plan at any time. The plan is a rolling three-year plan, which pays out during the first quarter after the third year.

**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 9 to the Consolidated Financial Statements in this Annual Report.

**Other Components of Compensation:** Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums, 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 | Bonus | Deferred/ Perquisites | Long-Term Incentive[4] | Other | Total |
|---|---|---|---|---|---|---|---|
| Aaron S. Johnson, CEO | **2020** | **$ 488** | **$ 244** | **$ 11** | **$ --** | **$ 27** | **$ 770** |
| Aaron S. Johnson, CEO[1] | 2019 | 125 | 79 | 2 | -- | 230 | 436 |
| Thomas H. Tracy Jr., CEO[2] | 2019 | 329 | 267 | 6 | -- | 199 | 801 |
| Thomas H. Tracy Jr., CEO | 2018 | 405 | 255 | 8 | -- | 57 | 725 |
| Aggregate Number of Senior Officers, excluding CEO | | | | | | | |
| Six | **2020** | **$ 1,375** | **$ 623** | **$ 16** | **$ 133** | **$ 148** | **$ 2,295** |
| Seven[3] | 2019 | 1,519 | 706 | 20 | 49 | 1,496 | 3,790 |
| Five | 2018 | 1,123 | 519 | 14 | -- | 294 | 1,950 |

[1]Aaron S. Johnson's compensation is pro rated beginning when he became Interim CEO on September 25, 2019.

[2]Thomas H. Tracy Jr.'s compensation is through December 31, 2019.

[3]Includes pro rated compensation for Aaron S. Johnson's term as senior officer until September 25, 2019.

[4]Long-term incentive plan began in 2019.

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 qualified and nonqualified 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 9 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.
- Compensation paid for the former CEO after September 25, 2019.
- Amounts paid in 2019 related to former CEO retirement benefits.

No tax reimbursements are made to the CEO or 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)

**2020**

| Name | Plan | Years of Credited Service | Present Value of Accumulated Benefits | Payments Made During the Reporting Period |
|---|---|---|---|---|
| Aaron S. Johnson, CEO | AgriBank District Retirement Plan | **35.9** | **$ 3,511** | **$ --** |
| | AgriBank District Pension Restoration Plan | **35.9** | **739** | **--** |
| Aggregate Number of Senior Officers, excluding CEO | | | | |
| Two | AgriBank District Retirement Plan | **34.6** | **$ 3,578** | **$ --** |
| One | AgriBank District Pension Restoration Plan | **21.1** | **14** | **--** |

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 highly compensated employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Not all senior officers or highly compensated employees are eligible to participate in this plan.

### Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 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:

1100 Farm Credit Drive
Mahomet, IL 61853
(217) 590-2200
www.farmcreditIL.com

The total directors' travel, subsistence, and other related expenses were $119 thousand, $204 thousand, and $242 thousand 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 $108 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred $5 thousand for tax services. We also incurred fees of $2 thousand for accounting research software, 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.

### 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.

# YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

*Farm Credit Illinois, ACA*

*(Unaudited)*

**Definitions and Mission**

Consistent with Farm Credit Administration regulations, the following definitions have been used in identifying young, beginning, and small farmers and ranchers (YBS) loans and in preparing the required reports pertaining to Farm Credit Illinois, ACA (FCI)'s performance in serving the YBS farmers in its territory:

**Young Borrower** – A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date will be coded as "young" per FCA Regulations. FCI's program called FreshRoots, defines program eligibility including discounted rates and/or relaxed guidelines as age 40 or younger as of the loan application date. Although program eligibility allows for applicants between the ages of 35 to 40, FCI continues to identify "young" farmers as defined by FCA.

**Beginning Borrower** – A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan application date.

**Small Borrower** – A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Many "young" and/or "beginning" farmers will also meet the FCA definition of a "small" farmer. FCI feels that its traditional loans, and especially it's scorecard loan program, adequately addresses the needs of the "small" farmers not meeting the definition of a "young" or "beginning" farmer.

FCI's objective is to provide farm families and the rural marketplace with constructive credit, related services, and financial expertise. The mission of the FreshRoots program is to provide financing and learning development opportunities to young or beginning farmers to further their success, while ensuring lifetime partnerships with FCI. The association will accomplish this by:

- Providing discounted interest rates for up to a maximum period of five years through the FreshRoots Loan Program for young and/or beginning farmers
- Offering learning incentives for young and beginning farmers that attend educational workshops with the intent of encouraging personal growth and professional development
- Providing relaxed lending standards for approval within the eligibility guidelines
- Making full use of guaranteed loan programs through the State of Illinois and the United States Department of Agriculture (USDA) Farm Service Agency
- Establishing both quantitative portfolio targets and qualitative goals for services offered
- Continuing to participate in numerous outreach programs which benefit YBS farmers
- Fully utilizing a streamlined application and approval process for small loans

In order to limit the risk to the Association for those loans approved under the FreshRoots Loan Program, total loans to one borrower are limited to an aggregate limit of $1.0 million for production and intermediate-term (PCA) loans and $2.0 million for real estate (FLCA) loans eligible for relaxed underwriting standards. The limits for discounted interest rates are $500 thousand for production and intermediate-term (PCA) loans and $1.0 million for real estate (FLCA) loans. Exceptions to this limit and other credit standards under this program are considered when there are other adequate offsetting credit strengths.

**2020 Results**

As required by board policy, quantitative targets and qualitative goals for YBS loans are established on an annual basis for the succeeding 3 years. The targets set for 2020 do not contemplate loans originated under the U.S. Small Business Administration's (SBA) Payroll Protection Program (PPP) as this program did not exist at the time targets were set. The following goals and targets were established for 2020:

(dollars in thousands)

| Category | Number of New Loans Closed | Number of Loans Outstanding | Total Loan Volume | Percent of Total Loans |
|---|---|---|---|---|
| Young Farmer | 1,140 | 3,600 | $ 550,000 | 19.0% |
| Beginning Farmer | 1,060 | 3,730 | 615,000 | 21.0% |
| Small Farmer | 1,800 | 6,900 | 710,000 | 38.0% |
| Outreach Program - Goal for total number of activities | | | 90 | |

The following tables detail the level of new business generated in 2020 plus the level of volume outstanding as of December 31, 2020, both by number of loans and by volume for young and beginning farmers and ranchers (all tables include PPP loans). "Volume Outstanding" in the charts below represent the principal and unfunded commitments net of funds held outstanding as of December 31, 2020.

| (dollars in thousands) | Number of Loans | Percent of Total | Volume Outstanding | Percent of Total |
|---|---|---|---|---|
| Total gross new loans and commitments made during the year | 6,485 | | $ 1,501,649 | |
| Total loans and commitments made to young farmers and ranchers | 1,395 | 21.5% | 278,595 | 18.55% |
| Total loans and commitments made to beginning farmers and ranchers | 1,372 | 21.2% | 261,516 | 17.42% |

- Of the total gross new loans and commitments made during the year, 627 were PPP loans with volume outstanding of $9.9 million.
- Of the total loans and commitments made to young farmers and ranchers, 112 were PPP loans with volume outstanding of $1.2 million.
- Of the total loans and commitments made to beginning farmers and ranchers, 80 were PPP loans with volume outstanding of $599 thousand.

| (dollars in thousands) | Number of Loans | Percent of Total | Volume Outstanding | Percent of Total |
|---|---|---|---|---|
| Total loans and commitments outstanding at year end | 18,609 | | $ 5,397,518 | |
| Young farmers and ranchers | 3,815 | 20.5% | 659,308 | 12.22% |
| Beginning farmers and ranchers | 4,195 | 22.5% | 687,338 | 12.73% |

The following tables detail the level of new business generated in 2020 plus the level of business outstanding as of December 31, 2020, both by number of loans and by volume for small farmers and ranchers.

| (dollars in thousands) | $0 - $50,000 | $50,001 - $100,000 | $100,001 - $250,000 | $250,001 and greater |
|---|---|---|---|---|
| Total number of new loans and commitments made during the year | 1,865 | 851 | 1,323 | 2,446 |
| Total number of loans made to small farmers and ranchers during the year | 936 | 496 | 506 | 263 |
| Number of loans to small farmers and ranchers as a % of total number of loans | 50.2% | 58.3% | 38.2% | 10.8% |
| Total gross loan volume of all new loans and commitments made during the year | $ 44,239 | $ 64,925 | $ 220,981 | $ 1,171,504 |
| Total gross loan volume to small farmers and ranchers | 23,423 | 36,939 | 80,951 | 123,599 |
| Loan volume to small farmers and ranchers as a % of total gross new loan volume | 52.9% | 56.9% | 36.6% | 10.6% |
| Total number of loans and commitments outstanding at year end | 5,931 | 3,133 | 4,596 | 4,949 |
| Total number of loans to small farmers and ranchers | 3,174 | 1,614 | 1,704 | 771 |
| Number of loans to small farmers and ranchers as a % of total number of loans | 53.5% | 51.5% | 37.1% | 15.6% |
| Total loan volume outstanding at year end | $ 133,707 | $ 235,531 | $ 768,908 | $ 4,259,372 |
| Total loan volume to small farmers and ranchers | 71,654 | 120,248 | 270,789 | 355,285 |
| Loan volume to small farmers and ranchers as a % of total loan volume | 53.6% | 51.1% | 35.2% | 8.3% |

As of December 31, 2020, all targets and goals are met.

**Association Results as Compared to 2017 USDA Ag Census Demographics**

Through the Farm Credit Council, the Association has obtained a special tabulation of the 2017 USDA Census of Agriculture; used as our source of demographic data for comparison to FCI's performance in serving young, beginning, and small farmers and ranchers. This special tabulation includes only those farms in FCI's chartered territory that have debt and annual gross sales of at least $10 thousand.

| | Percentages by Number | | |
|---|---|---|---|
| As of December 31, 2020 | Young | Beginning | Small |
| Farm Credit Illinois, ACA* | 20.1% | 22.2% | 38.4% |
| 2017 Census data | 18.8% | 25.5% | 55.8% |

*Association percentages exclude FCI's share of ProPartners and includes PPP loans.

The Association's business activity with "young" farmers is just above the demographics of the marketplace. Business activity with "beginning" farmers is slightly below the demographics of the marketplace. Business activity with "small" farmers is below the demographics of the marketplace. Grain and livestock prices continue to fluctuate. In general, farms have been able to generate excellent production of grain and livestock even as prices trend downward, and FCI has seen more "small" farmers' incomes rising above the $250 thousand threshold. Although the business activity with the "beginning" and "small" farmers was below the census data, both exceeded the Association's targets as established in the business plan.

## Government Guarantees

As a means to control risk in some situations, co-makers or guaranteed loan programs through the state of Illinois and the USDA Farm Service Agency (FSA) are utilized when possible. During the past few years FCI has utilized several types of FSA programs for real estate (FLCA) loans:

- FSA Direct Down Payment Farm Ownership Program: This program is specific for a purchase of a farm by a beginning or underserved farmer. FCI loans 50.0% of the real estate purchase for a 30-year term (with most having a reduced interest rate for the first 5 years under the FreshRoots program), FSA loans 45.0% for a 20-year term at a 1.5% fixed interest rate, and the customers are required to put 5.0% down. One additional advantage of this program that FCI has utilized (in most cases to reduce loan risk), is to obtain a 95.0% FSA loan guarantee on the FLCA loan at no additional charge to the member.
- FSA Direct Farm Ownership: This program can be utilized to purchase a farm by all eligible farmers (not specific to Beginning farmers). FCI loans 50.0% of the real estate purchase with typical terms of 20-30 years with eligible FreshRoots borrowers receiving a discounted interest rate for the first 5 years. FSA loans 50.0% with terms up to a 40-year term at a 2.5% fixed interest rate. No down payment is required. FCI can obtain a 90.0% FSA loan guarantee where applicable to mitigate or reduce loan risks with a fee payable to FSA. FCI pays the guarantee fee for eligible FreshRoots members.
- FCI may also choose to obtain a guarantee from FSA (typically 90.0%) with no direct funds from FSA; all FLCA funds are obtained through FCI. Under the FreshRoots program, FLCA Loan to Value (L/V) is limited to a maximum of 85.0% with an FSA guarantee (L/V ranging from 70.0-85.0% typically requires a guarantee).

During 2020, the Association originated 63 new FSA guaranteed loans to young, beginning, and/or small farmers with a year-end volume of $11.0 million. Total volume for YBS Government Guaranteed Loans was $41.6 million at December 31, 2020. Guaranteed loans for 2020 were above the goal of 40 new loans, and the goal of total loan volume outstanding of $38.0 million was exceeded at $42.0 million.

## Outreach Activities

The Association develops an annual marketplace engagement plan which includes special emphasis on the young, beginning, and small farmer segments in the marketplace to promote Farm Credit products and services and demonstrate our commitment to serving these market populations.

FCI staff participated in a total of 93 YBS outreach activities in 2020 which exceeded our goal of 90 for the year. As noted in the Marketplace Engagement and Legislative Affairs component plan, outreach activities to YBS farmers include but are not limited to:

- Young and Beginning Farmer Forum
- Member Advisory Council meetings
- Farm Credit College educational workshops
- Cultivating Master Farmers mentoring program
- Illinois Farm Bureau's Young Leader sponsorship
- FCI Agriculture Scholarship program
- FCI Community Improvement Grants
- The Association’s Community College Outreach Initiative partners
- Farm Credit Newsroom at the Illinois State FFA Convention

## Quantitative Targets and Qualitative Goals

The Association’s quantitative targets and qualitative goals for the next 3 years are as follows (excluding ProPartners):

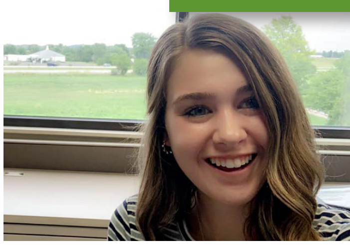
(dollars in thousands)

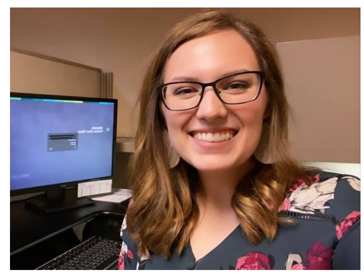
| Category | Number of New Loans Closed | Number of Loans Outstanding | Total Loan Volume | Percent of Total Loans |
|---|---|---|---|---|
| 2021 Young Farmer | 1,170 | 3,670 | $ 570,000 | 19.0% |
| 2022 Young Farmer | 1,200 | 3,700 | 595,000 | 19.0% |
| 2023 Young Farmer | 1,230 | 3,730 | 620,000 | 19.0% |
| 2021 Beginning Farmer | 1,090 | 3,770 | $ 618,000 | 21.0% |
| 2022 Beginning Farmer | 1,100 | 3,800 | 620,000 | 21.0% |
| 2023 Beginning Farmer | 1,110 | 3,830 | 622,000 | 21.0% |
| 2021 Small Farmer | 1,870 | 6,900 | $ 712,000 | 38.0% |
| 2022 Small Farmer | 1,900 | 6,900 | 714,000 | 38.0% |
| 2023 Small Farmer | 1,930 | 6,900 | 716,000 | 38.0% |
| YBS Government Guaranteed Loan Goal | 45 | N/A | 40,000 | N/A |
| Outreach Program - Goal for total number of activities | | 90 | | |

# 2020 Reflections

## FRESHROOTS DIRECTORS CUP PRESENTATIONS


## SUMMER INTERNS

## #KeepingUsfed



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Mahomet, IL 61853