farm CREDIT MID-AMERICA | RURAL 1st

2020 ANNUAL REPORT

Securing the future of rural communities and agriculture.
One home, one farm, and one business at a time.




As part of a nationwide network of rural lending cooperatives, Farm Credit Mid-America provides our customers and their operations with knowledgeable solutions designed to secure the future of rural communities and agriculture. We invite you to meet some of the people who help us fulfill our purpose. Whether adapting to the challenges of a global pandemic or investing in the future leaders of our industry, together we continue to build a strong and sustainable Association that will contribute to the success of agriculture throughout Indiana, Ohio, Kentucky and Tennessee.

BILL JOHNSON

PRESIDENT AND CHIEF EXECUTIVE OFFICER

At Farm Credit Mid-America, we work each day to secure the future of rural communities and agriculture. The last several years have presented more than their fair share of challenges for the resilient men and women in agriculture. If 2020 underscored one thing, it is our Association's unwavering commitment to stand beside our customer-owners through challenging times – today and well into the future.

As farmers continued to cope with the impact of weather events, low commodity prices, and the trade uncertainties of 2019, the swift rise of the coronavirus pandemic created even more hardships for agriculture and our nation. While initiatives such as Coronavirus Food Assistance Programs provided financial assistance to farming operations affected by the pandemic, these resources did not mitigate all of its impact on agriculture.

COVID-19 required us to prioritize the health and safety of our customers and team members by adjusting the way we conducted business, but it did not hinder our commitment to meet the obstacles our customers faced and provide both financial and risk-mitigating solutions.

In March, our Patronage program continued for the fourth year in a row, returning $184.1 million to our customer-owners and bringing our total returned in that time period to $442.2 million. While COVID-19 prevented our team members from physically celebrating Patronage Week in our offices and delivering many of these checks in person, we were proud that these Patronage returns arrived at a time when they were truly needed. And we are pleased to share that our Board of Directors recently approved this year's Patronage return amount of $200.0 million, which will be delivered in March 2021.

When Congress announced the Small Business Administration's Paycheck Protection Program, we mobilized a team to work alongside the Farm Credit Council and bring the Program to our customers. Through these efforts, we were able to secure 780 customer applications totaling $19.6 million, helping owners of small businesses secure needed funding to protect thousands of jobs in our region. Today, we continue to communicate with this customer base to help them navigate the nuances of this unique program.

Our team members addressed the challenges COVID-19 created for our customer-owners through our "Navigating Challenges" webinar series. Each webinar provided useful information for beef, poultry, dairy, pork and grain producers and spurred conversations with our experienced retail team members that helped our customer-owners make sound financial decisions.

We continued to support our young, beginning and small farmers through the resources of our Growing Forward program. While in-person Know-to-Grow conferences were postponed due to the pandemic, our Growing Forward team members and financial officers continued to serve and support the financial health of more than 1,000 Growing Forward participants.

We also rolled out the LifeWorks Resource Program to provide well-being solutions to our customers who are dealing with stress and the other difficulties of everyday life. This cooperative benefit is provided at no cost and helps customers and their dependents address and resolve a wide range of life's concerns and challenges.

As we look back on another year, it is with great pride that we can share – despite the many hurdles and struggles we've faced– Farm Credit Mid-America is the strongest it has ever been.

We began 2020 by prioritizing the customer experience and committing to keep our customers – both our customer-owners and each teammate – at the center of everything we do. This included evaluating our loan processes and creating efficiencies to contribute to an improved and more streamlined customer experience and led to the launch of tools and initiatives like e-signature and an online application for small agricultural loans.

By serving you and one another, we've experienced record-breaking growth.

In 2020, owned and managed assets grew to $28.8 billion, an increase of $3.4 billion over 2019. Net income was $396.8 million, and we insured 2.54 million acres.

Rural 1st®, our lending division for country living, continues to thrive. Through expanded marketing and the addition of Texas Farm Credit to our list of partners, we are helping individuals and families in twelve states draw Closer to What Matters™ and achieve their rural living dreams.

I am also proud to share that the men and women who work for Farm Credit Mid-America are the most talented team we have ever had. Through ongoing instruction and learning, they are bringing new knowledge and diversity of thought that strengthens our organization.

Our tremendous growth is the result of a decade-long commitment to grow the financial strength of your cooperative. That commitment is alive and well today as we pursue our vision to be the agricultural lender of choice in our marketplace and to provide an outstanding customer experience one home, one farm and one business at a time.

Like you, our roots in rural communities and agriculture run deep. We understand the cyclical nature of agriculture, and we thank you for choosing Farm Credit Mid-America to serve all of your rural lending and agricultural needs through the challenges of the past few years. It is our honor to stand beside you today, and we continue to take the necessary steps to ensure we are here to serve rural communities and agriculture for another 100 years.

Sincerely,

Bill Johnson

Bill Johnson
President and Chief Executive Officer

ANDREW WILSON
CHAIR OF THE BOARD OF DIRECTORS

Without exception, 2020 will be a year we all remember. There were greater challenges than ever anticipated. There was also much reward.

As a member of the Farm Credit Mid-America Board of Directors and a fourth-generation farmer, I too felt the daunting impact of COVID-19. The loss of lives in our communities, the stress on agriculture markets, and feelings of uncertainty affected the entire world. My family and I labored through the harvest season in the barns, fields, and combine while overcoming the virus. We felt tired, weakened, and worn – but we found the strength to carry out our purpose and prevail each day.

The Board of Directors and team members at Farm Credit Mid-America were no different. With full trust and confidence in one another, we relied on the strong foundation of our Association to mobilize and serve our customer-owners. In the midst of a global pandemic, we gained many achievements throughout the year.

Farm Credit Mid America demonstrated its support for rural communities and agriculture through investments in programs, scholarships, and partnerships that:

- Continue to support leadership development and community engagement programs for young men and women through Farm Bureau, FFA, and 4-H.
- Provided $200,000 in direct scholarships to more than 90 young people pursuing careers in agriculture. Because in-person learning experiences were not possible, we used technology and virtual meetings to continue giving students in our College Scholars Program valuable support, learning and networking experiences.
- Fostered diversity in agriculture through support of the Black Farmers Conference and Victory Garden, a program for Veteran farmers in Cleveland. We also deepened our relationship with Historically Black Colleges and Universities (HBCU) by participating in the HBCU Partnership Challenge, a program that helps students gain equal access to opportunities to fund their education and prepare for their careers. The initiative is also part of our continued efforts to recruit and retain a diverse workforce.
- Donated $200,000 to 25 different food distribution centers as part of Farms to Food Banks. Over the past five years, Farm Credit Mid-America has given more than $500,000 to bring farm-fresh produce and more than two million meals to local communities through this program. Rural 1st team members also hosted a food drive during September's Hunger Awareness Month and collected 20,000 canned and non-perishable goods for local food banks.
- Secured and donated more than 5,160 pounds of ground pork to the Akron-Canton Regional Food Bank. This donation provided 4,500 meals for the area and was possible thanks to our collaboration with Ohio Farm Bureau, the Ohio Pork Council's Pork Power Program and others.
- Helped communities in West and Middle Tennessee devastated by tornadoes in the Spring. Team members quickly volunteered to help with cleanup in the impacted areas and support our customers. We also donated $25,000 to the Community Foundation of Middle Tennessee Emergency Response Fund to support recovery efforts.

On behalf of the Board of Directors, I would like to thank you for being part of our cooperative. As we look ahead to the future, we encourage you to continue to engage in our work to secure the future of rural communities and agriculture. One home, one farm and one business at a time.

Sincerely,

Andrew Wilson
Chair of the Board of Directors

Committed to our customers.

Cooperatives around the world operate according to a set of principles. As a farmer-owned cooperative, these principles – along with our purpose to secure the future of rural communities and agriculture – guide us every day. Our investments and the connections we build strengthen the industry, help our customers achieve their dreams, and ensure that agriculture is in good hands for generations to come. We remain committed to these investments, and to delivering an exceptional experience to our customer-owners. One home, one farm, one business at a time.


THANK A
FARMER
#FarmStrong
farm CREDIT

The power of cooperative roots

Isaac Greenwell is a fifth-generation crop farmer in Uniontown, Kentucky, where his family has long made a living growing corn and soybeans.

After graduating from Western Kentucky University in 2015, Isaac and one of his brothers set out to purchase their own farm as part of the family's larger operation. As they compared lenders, he says, choosing Farm Credit Mid-America "just made sense."

"The team they have there, the manner in which they conduct their business — to me they're not just a lender," he says. "I have a relationship with my loan officer where I could call him at 10 o' clock at night and he's there for us. He's honest and transparent and straightforward, and that's the kind of relationship you need in this industry."

In addition to valuing the Farm Credit Mid-America team, Isaac appreciates that the organization is a cooperative dedicated to serving its customer-owners. Farm Credit offers collective strength through shared resources — a benefit to cooperative members and to the rural communities in which they live and work.

"Being part of a co-op reassures me that the farmer's best interest is at heart. When the farmer succeeds, the co-op succeeds and vice versa," says Isaac, who believes so strongly in the Association's mission that he serves on the Association's Advocate Council. "Co-ops also see the value of investing in agriculture to help benefit the community."

This community investment ranges from supporting local FFA and 4-H chapters to coordinating major donations to local food banks.

Central Indiana farmer and fellow Advocate Council member Luke Dougherty agrees that Farm Credit Mid-America truly cares about customers and communities, which he says was particularly comforting during the COVID-19 pandemic. Though not hit as hard as others in agriculture, the pandemic is the first major adversity he's faced since he started farming seed corn, soybeans, food-grade corn, wheat and cucumbers several years ago — and the Association has advised him throughout the challenges.

"They were a calming voice saying, 'We're okay, we're strong, the operation is strong,'" Luke says. "It was definitely nice to have that."

Cooperatives provide many benefits, such as increased negotiating power with vendors, the ability to bring a larger volume to the market, and a broad knowledge base shared among their customer-owners. There's also comfort in knowing that co-op members truly want to see each other succeed — a fundamental value of the collective business model.

"It helps to know you're a part of a larger cooperative of farmers across the nation that are banding together for the common good," Luke says. "There's power in that."

According to customer and advocate Hunter Watson, that genuine care for farmers and rural communities is just the way the Association operates, and another benefit of belonging to a co-op. The Tennessee poultry farmer says Farm Credit Mid-America has a "small-town vibe" that makes customers the top priority.

"They'll come down to the farm just to check on you," he says. "It lets you know that they actually care about what you're doing."

And when it comes down to it, Hunter says, the financial aspects of a co-op – like the annual patronage check - are also pretty sweet.

"We're all partial owners," he says. "And it's nice to know everyone has a piece of the pie."


COX
FARMS

Getting Closer to What Matters™

Every day this spring and summer, 5-year-old Vera would hop on the UTV with her dad to tag calves and check on cows at the family's farm.

It gave the little girl something to look forward to every day, says Travis Gregorich, a beef farmer and customer of Farm Credit Mid-America and Rural 1st. The timing was perfect: just two weeks before the nation shut down in March 2020 due to the COVID-19 pandemic, the Gregorich family – Jenna, Travis and Vera - moved into their new Ohio home.

"It's still too good to be true," says Jenna.

Travis and Jenna are first generation farmers who turned to Farm Credit Mid-America and its country lending division, Rural 1st, to make their rural living dreams a reality. From loans and savings to education and networking, this couple maximized the resources the cooperative offers to lay a strong foundation for their future.

Travis and Jenna found even more benefit from Farm Credit Mid-America using a Farm Cash Management investment account and enrolling in its Growing Forward program for young, beginning and small farmers.

When the couple found land with a farmhouse near a state route in Coshocton County, Ohio, it did not feel right at first. They worried about the traffic with Vera and their dog, Laney.

But then something shifted, and they took another look. A vision popped into their heads that would shape this family's future – to build a home on the property. With the help of Farm Credit Mid-America and Rural 1st , that vision began to take shape.

While other banks shied away from the acreage Travis and Jenna wanted to buy and other lenders may have hesitated at some of the decisions made during their build, Farm Credit Mid-America and Rural 1st did not.

"Their team worked with us the best," says Jenna, especially with flexibility on timelines and using spring water as a water source. "The Farm Credit to Rural 1st connection helped us get full circle."

"We live the rural life ourselves, so we understand the nuances of lending for land and homes in rural settings," says Jennifer Croft, Rural 1st Loan Officer. "That's why so many families like the Gregoriches turn to us to help make their country living dreams reality."

Since March, the family has enjoyed their new home and land, sitting on the front porch watching the sunset and cultivating in Vera a love of animals and the outdoors. Five years ago, Jenna admits she could not have predicted where they'd be sitting now: "It's a dream I didn't know I had."

"We're super happy," adds Travis. "We want to make smart decisions, manage our money and grow."

Every day Farm Credit Mid-America and Rural 1st collaborate with customers like the Gregorich family to do just that, helping them achieve their rural living dreams and get Closer to What Matters™ in the process.

Adam Leising

Claire Baney

Chaela Minor

Akiliyah Sumlin

Firmly rooted in the future of ag

While 2020 presented plenty of tests, it also offered valuable lessons to young people pursuing careers in agriculture. For Farm Credit Mid-America Scholars, the pandemic confirmed that agriculture is exactly where they want to be.

Despite the pandemic, Farm Credit Mid-America fulfilled its commitment to our summer interns and continued to offer them valuable hands-on learning experiences. For Akiliyah Sumlin, a senior at Tennessee State University, the summer of 2020 marked her second internship with the Association. She said COVID-19 affirmed her desire to be a role model for people of color in agriculture and to help farmers better market themselves and use technology to improve their businesses.

"I posed the question to myself 'How can I change the world from my home?'" said Akiliyah. "There's more to agriculture than growing the product."

Adam Leising, a senior at Purdue University, also took note that jobs in agribusiness weren't going away, even as unemployment continued to rise during the pandemic.

"This has solidified what I want to do," says Adam, who plans to launch a career in ag finance after graduation. "I'm ready to start experiencing the industry."

When COVID-19 caused the cancellation of in-person learning and other experiences, Farm Credit Mid-America Scholars also found creative ways to educate themselves and others.

Chaela Minor, a junior at Purdue University, was in charge of recruitment for the university's annual Ag Week. When the in-person event promoting ag education was cancelled, Chaela and her team took it online.

The Ag Week committee used social media to post daily quizzes, photos, games and panel discussions designed to inform and educate a broader audience about agriculture. One educational video of a student holding a baby calf on her lap on "Milk Monday" generated more than 1,000 views on Instagram, including one from Chaela's younger sister, a first grader.

"Emma loved it," says Chaela. "She did the quizzes every day."

As a result, the virtual event reached more people and a more diverse audience than ever before.

"While our target didn't change, our reach did," says Chaela. "The goal of Ag Week is to educate others unfamiliar with agriculture and that goal was met."

Purdue University senior Claire Baney also found herself pivoting when her esteemed internship with the National FFA Leadership Conference in Washington, D.C. was cancelled. While Claire was disappointed, she decided to refocus on what she could do and took on a marketing role for her family's growing operation, Remedy Farms. As its newly appointed Agricultural Communications Manager, Claire set out to build the farm's brand from the ground up.

"I'm a double major in agricultural communication and agricultural economics. I'm taking what I'm doing now and using it at home," says Claire.

For Farm Credit Mid-America, fulfilling our purpose means more than supporting the farms of today. It also means growing the agricultural leaders of tomorrow, even amid the challenges of the global pandemic. The stories of these College Scholars (and others) demonstrate the perseverance and broad thinking necessary to secure the future of agriculture.

BOARD OF DIRECTORS

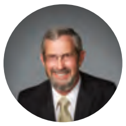
Andrew Wilson
Chair
Somerset, OH

John Kuegel Jr.
Vice Chair
Owensboro, KY

Dale "Bud" Tucker
Secretary
Greeneville, TN

David Bates, III
Shepherdsville, KY

Todd Clark
Lexington, KY



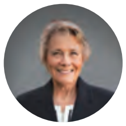
Dwain "Doc" Cottingham
Attica, IN

Lowell Hill
De Graff, OH

Jason Moore
Paris, TN

Brandon Robbins
Cookeville, TN

Rachael Vonderhaar
Camden, OH



Kaye Whitehead
Muncie, IN

Tony Wolfe
Hazleton, IN

Steven Bush*
Clermont, FL

Laura Knoth*
Grand Rivers, KY

**Appointed Directors*

EXECUTIVE LEADERSHIP TEAM

Bill Johnson
President and
Chief Executive Officer

Vince Bailey
Executive Vice President –
Chief Credit Officer

Mark Hanna
Executive Vice President –
Chief Risk Officer

Greg Hoffman
Executive Vice President –
General Counsel

Keith Lane
Executive Vice President –
Chief Lending Officer

Heather Vidourek
Executive Vice President –
Human Capital

Dan Wagner
Executive Vice President –
Chief Operating Officer

For additional information on the Board of Directors and the Executive Leadership team, see page 60.

GETTING INVOLVED

OUR COOPERATIVE AND YOU

As a customer-owned cooperative, Farm Credit Mid-America relies on the time and talent of customers like you to keep agriculture strong across our region. Involvement with Farm Credit Mid-America can be rewarding on a personal level by allowing you to form and build relationships with others, expand your personal networks and hone your leadership skills. You will also have the satisfaction of knowing you are helping to secure the future of rural communities and agriculture by providing valuable input about our products and services.

Here are three ways you can become involved in Farm Credit Mid-America.

BOARD OF DIRECTORS*

Our Board of Directors is responsible for establishing policies, providing strategic direction to and oversight of management and making sure information provided to customers is accurate, understandable, and reliable. The Board consists of stockholder-elected directors from each of our four states and two outside appointed directors who bring an independent and objective perspective to the boardroom. Each director serves on a committee responsible for a specific area of board governance – Executive, Audit, Human Resources, Risk Management and Governance.

Visionary thinking, leadership experience, strong communication skills, diverse perspectives and backgrounds, and a passion to serve are just some of the qualities customers contribute to Farm Credit Mid-America through service on our Board of Directors.

Board members receive compensation for their service and are reimbursed for expenses incurred in attending meetings.

To recommend a customer in Indiana, Ohio, Kentucky or Tennessee to our Board of Directors, visit **e-farmcredit.com/about/board-of-directors/recommendation-form.**

NOMINATING COMMITTEE*

Each year, five customers from each of our four states are elected by voting customers to serve on Farm Credit Mid-America's Nominating Committee. The Nominating Committee meets each February to nominate candidates for open Director and Nominating Committee positions. Members are compensated for their time and travel.

To nominate an individual to the Nominating Committee, visit **e-farmcredit.com/about/nominating-committee/recommendation-form.**

ADVOCATE COUNCIL

Securing the future of rural communities and agriculture begins with building strong relationships – with our customers and the communities where they live and work. We are better equipped to serve our customers when we have greater visibility into their unique challenges and operational needs.

That's why we created the Farm Credit Mid-America Advocate Council. The Advocate Council is a diverse group of 320 professionals and leaders who represent rural communities across Indiana, Ohio, Kentucky and Tennessee. Together, we are engaged in ongoing conversations and sharing thoughts, ideas and opportunities to deepen our impact, relationships and support for our customers.

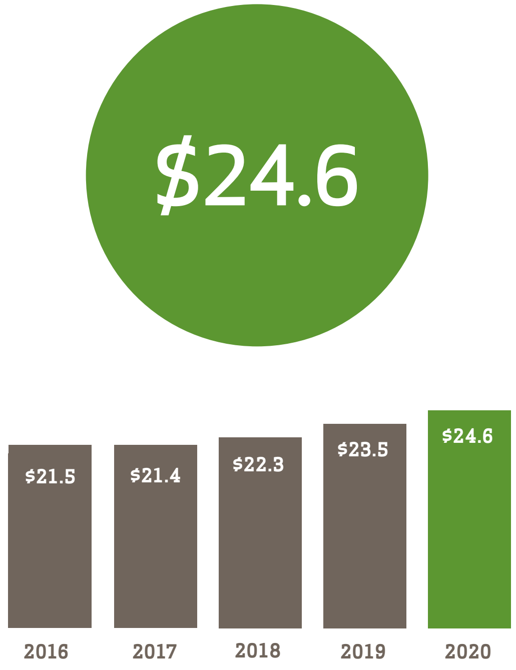
Learn more at **e-farmcredit.com/advocate-council.**

CUSTOMER PRIVACY

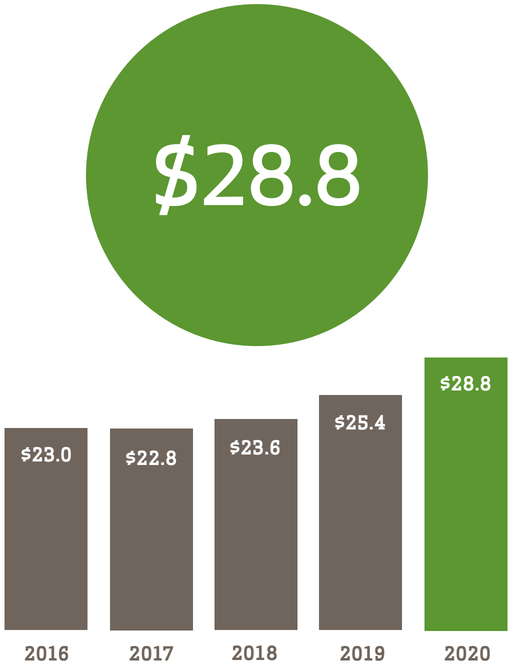
Your privacy and the security of your financial and personal information are vital to our ability to serve your credit needs. We hold your information in strict confidence. It is not sold or traded to marketing companies or information brokers. It may only be disclosed in situations allowed by federal regulations or upon your consent.

**Recommendations are accepted year-round for positions up for election on the Board of Directors and for the Nominating Committee. Qualifications and eligibility requirements apply. Farm Credit Mid-America's bylaws prohibit customers who do not farm or reside within Farm Credit Mid-America's chartered four-state area from serving on the Board of Directors or the Nominating Committee.*

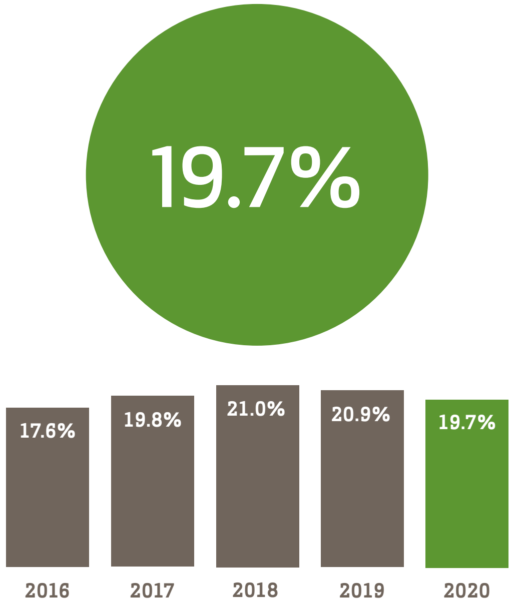
LOANS (OWNED ONLY)
DOLLARS IN BILLIONS



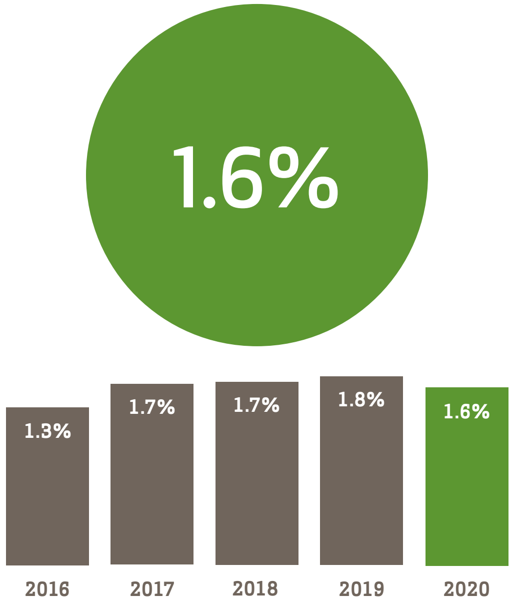
TOTAL (OWNED AND MANAGED) ASSETS
DOLLARS IN BILLIONS



PERMANENT CAPITAL RATIO
PERCENTAGE



RETURN ON AVERAGE ASSETS (AFTER TAX)
PERCENTAGE



CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(DOLLARS IN THOUSANDS) AS OF DECEMBER 31 STATEMENT OF CONDITION DATA	2020	2019	2018	2017	2016
Loans	**$24,619,166**	$23,483,766	$22,317,940	$21,428,443	$21,497,736
Allowance for loan losses	**82,867**	76,898	103,549	103,658	94,746
Net loans	**24,536,299**	23,406,868	22,214,391	21,324,785	21,402,990
Investment in AgriBank, FCB	**690,787**	517,435	442,516	441,703	441,703
Investment securities	**456,074**	476,728	90,911	131,931	172,959
Other assets	**596,005**	602,252	612,722	573,970	594,300
Total assets	**$26,279,165**	$25,003,283	$23,360,540	$22,472,389	$22,611,952
Obligations with maturities of one year or less	**$395,132**	$425,827	$357,764	$301,362	$18,438,167
Obligations with maturities greater than one year	**20,739,705**	19,634,898	18,294,973	17,709,391	1,183
Total liabilities	**21,134,837**	20,060,725	18,652,737	18,010,753	18,439,350
Capital stock and participation certificates	**77,157**	74,791	78,260	81,474	84,561
Unallocated surplus	**5,068,119**	4,868,756	4,630,441	4,381,202	4,088,041
Accumulated other comprehensive loss	**(948)**	(989)	(898)	(1,040)	–
Total members' equity	**5,144,328**	4,942,558	4,707,803	4,461,636	4,172,602
Total liabilities and members' equity	**$26,279,165**	$25,003,283	$23,360,540	$22,472,389	$22,611,952
For the year ended December 31	**2020**	2019	2018	2017	2016
STATEMENT OF INCOME DATA					
Net interest income	**$522,953**	$508,326	$488,277	$470,177	$444,302
Provision for (reversal of) credit losses	**11,318**	(22,761)	8,056	23,169	38,818
Other expenses, net	**(114,793)**	(108,084)	(86,620)	(68,192)	(105,252)
Net income	**$396,842**	$423,003	$393,601	$378,816	$300,232
KEY FINANCIAL RATIOS					
FOR THE YEAR					
Return on average assets	**1.6%**	1.8%	1.7%	1.7%	1.3%
Return on average members' equity	**7.9%**	8.7%	8.6%	8.8%	7.4%
Net interest income as a percentage of average earning assets	**2.2%**	2.2%	2.2%	2.2%	2.1%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%	0.1%	0.0%
AT YEAR END					
Members' equity as a percentage of total assets	**19.6%**	19.8%	20.2%	19.9%	18.5%
Allowance for loan losses as a percentage of loans	**0.3%**	0.3%	0.5%	0.5%	0.5%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**19.6%**	20.8%	20.9%	19.7%	N/A
Tier 1 capital ratio	**19.6%**	20.8%	20.9%	19.7%	N/A
Total capital ratio	**20.0%**	21.2%	21.4%	20.3%	N/A
Permanent capital ratio	**19.7%**	20.9%	21.0%	19.8%	N/A
Tier 1 leverage ratio	**18.5%**	19.1%	19.2%	18.3%	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	N/A	17.6%
Total surplus ratio	**N/A**	N/A	N/A	N/A	17.2%
Core surplus ratio	**N/A**	N/A	N/A	N/A	17.2%
NET INCOME DISTRIBUTED					
FOR THE YEAR					
Patronage distributions:					
Cash	**$184,075**	$144,102	$86,240	$27,781	$–

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Mid-America, ACA (the Association) and its subsidiaries, Farm Credit Mid-America, FLCA and Farm Credit Mid-America, 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:

Farm Credit Mid-America, ACA
P.O. Box 34390
Louisville, KY 40232
(800) 444-FARM
www.e-farmcredit.com

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

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

FORWARD-LOOKING INFORMATION

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

- Political (including trade and environmental policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad
- Length and severity of an epidemic or pandemic
- Economic fluctuations in the agricultural, international, 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.

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.

Despite volatility and uncertainty in the market, we have weathered the significant initial challenges presented by the current operating environment and operations of our Association are fully functioning. Our business continuity response has allowed us to continue to serve our mission and the remote work environment has allowed us to continue to maintain the health of our employees and operate without loss of key functions due to illness. We have not had any significant changes to internal controls over financial reporting due to working remotely or related issues.

This outbreak puts the economy and agriculture sector in uncharted territory. The overall impact of COVID-19 on U.S. agriculture will depend on the severity and duration of the outbreak, including a potential reoccurrence later in the year. Overall, agriculture will adjust, providing an "essential service" to the U.S. and global consumer.

AGRICULTURAL AND ECONOMIC CONDITIONS

Net farm income, a broad measure of profits, is forecast to increase $36.0 billion (43.1%) from 2019 to $119.6 billion in 2020. Net cash farm income is forecast to increase $24.7 billion (22.6%) to $134.1 billion. If realized, both income measures would be well above their historical average across 2000-2019 when adjusted for inflation and at their highest levels since 2013 and 2014, respectively.

Total animal/animal product receipts are expected to decrease from 2019 by $9.7 billion (5.5%) with declines in receipts for broilers, cattle/calves, and hogs. Total crop receipts are expected to increase $6.5 billion (3.3%) from 2019 levels. Direct government farm payments — which include Federal farm program payments paid directly to farmers and ranchers but exclude United States Department of Agriculture (USDA) loans and insurance indemnity payments made by the Federal Crop Insurance Corporation — are forecast at $46.5 billion, a $24.0 billion (107.1%) increase. Overall, supplemental and ad-hoc disaster assistance payments in 2020 are forecast at $32.4 billion, an increase of $31.0 billion from 2019, mainly from payments from the Coronavirus Food Assistance Program (CFAP1 and CFAP2) and the Paycheck Protection Program (PPP).

Farm sector production expenses (including expenses associated with operator dwellings) are forecast to decrease by $5.2 billion (−1.5%) from 2019 to 2020. Forecast at $343.6 billion, 2020 production expenses are 19.9% below the record high of $429.0 billion in 2014 in inflation-adjusted terms.

Farm sector equity — the difference between farm sector total assets and total debt — is forecast to rise 1.1% in 2020 (in nominal terms) to about $2.7 trillion and decline 0.1% in inflation-adjusted dollars. In nominal dollars, the expected increase in farm assets ($45.5 billion) is greater than the expected rise in farm debt ($16.6 billion). When adjusted for inflation, farm sector assets are expected to increase $7.6 billion, while farm sector debt is expected to rise $11.4 billion. Source: "Highlights from the December 2020 Farm Income Forecast", USDA Economic Research Service.

LOAN PORTFOLIO

Total loans were $24.6 billion at December 31, 2020, an increase of $1.1 billion from December 31, 2019.

Components of Loans

(IN THOUSANDS) AS OF DECEMBER 31	2020	2019	2018
Accrual loans:			
Real estate mortgage	**$15,432,275**	$14,734,675	$13,996,600
Production and intermediate-term	**4,197,638**	4,011,581	3,791,108
Agribusiness	**2,612,881**	2,087,077	1,731,823
Rural residential real estate	**767,061**	908,795	863,389
Finance leases and other	**1,408,725**	1,476,522	1,652,461
Non-accrual loans	**200,586**	265,116	282,559
Total loans	**$24,619,166**	$23,483,766	$22,317,940

The finance leases and other category is primarily composed of certain assets originated under the mission related investment authority and rural infrastructure related loans, as well as lease receivables.

The increase in total loans from December 31, 2019, was primarily due to an increase in real estate mortgage loans and agribusiness loans. This increase is offset by the Consumer Lending asset pool sale to AgriBank. On May 1, 2020, we sold $1.9 billion of a participation interest in real estate and rural residential real estate loans to AgriBank. AgriBank has established a separate patronage pool for these assets and may pay patronage back to us at the sole discretion of the AgriBank Board of Directors.

We have sold to AgriBank participation interests in certain loans as part of pool programs. The total outstanding participation interests in these programs were $1.8 billion, $139.0 million, and $177.4 million at December 31, 2020, 2019, and 2018, respectively. The increase was primarily due to the formation of the Consumer Lending asset pool program. During 2020, we began participating in the ProPartners Financial (ProPartners) alliance with certain other associations in the Farm Credit System. We sell to AgriBank a 100% participation interest in production and intermediate-term loans associated with ProPartners.

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 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. Since beginning the program, we have successfully processed $19.6 million in PPP loans for customers with 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 $9.6 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 not had significant requests for loans under this expanded program.

We offer variable, fixed, capped, indexed, and adjustable interest rate loans and fixed rate lease 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.

PORTFOLIO DISTRIBUTION

Geographical Distribution

AS OF DECEMBER 31	2020	2019	2018
Indiana	**25.2%**	25.6%	24.5%
Ohio	**21.3%**	22.3%	22.4%
Tennessee	**13.3%**	14.9%	15.9%
Kentucky	**10.7%**	11.9%	12.6%
California	**5.6%**	5.2%	4.5%
Other	**23.9%**	20.1%	20.1%
Total	**100.0%**	100.0%	100.0%

Agricultural Concentrations

AS OF DECEMBER 31	2020	2019	2018
Corn and soy beans	**21.0%**	21.4%	21.7%
Other crops	**19.2%**	19.6%	20.0%
Landlords	**10.0%**	9.3%	8.7%
Cattle	**9.7%**	10.8%	11.2%
Processing and marketing	**8.5%**	7.1%	6.0%
Other livestock	**6.0%**	6.0%	5.9%
Timber	**5.5%**	4.9%	4.3%
Poultry and eggs	**3.9%**	3.8%	3.3%
Dairy	**3.7%**	3.7%	3.7%
Rural home	**3.0%**	3.6%	3.6%
Other	**9.5%**	9.8%	11.6%
Total	**100.0%**	100.0%	100.0%

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

PORTFOLIO CREDIT QUALITY

Portfolio credit quality improved from December 31, 2019 to December 31, 2020. Adversely classified loans decreased to 2.8% of the portfolio at December 31, 2020, from 3.5% of the portfolio at December 31, 2019. The portfolio performed better than expected despite the COVID-19 disruptions. Aggressive COVID-19 government support programs and late year improvement in commodity prices helped stabilize the existing portfolio. Historically low interest rates drove demand for land and housing purchases and refinances resulting in significant high quality new loan growth. However, our current stress test assumptions anticipate adverse credit quality will increase again in 2021 in response to the ongoing effects of COVID-19 on the agriculture and general economies. 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:			
Non-accrual	**$200,586**	$265,116	$282,559
Accruing restructured	**17,130**	19,057	19,698
Accruing loans 90 days or more past due	**42,419**	34,213	18,843
Total risk loans	**260,135**	318,386	321,100
Other property owned	**1,485**	3,514	10,081
Total risk assets	**$261,620**	$321,900	$331,181
Total risk loans as a percentage of total loans	**1.0%**	1.3%	1.4%
Non-accrual loans as a percentage of total loans	**0.8%**	1.1%	1.3%
Current non-accrual loans as a percentage of total non-accrual loans	**68.3%**	67.7%	70.6%
Total delinquencies as a percentage of total loans	**0.9%**	1.0%	0.9%

Note: Accruing loans include accrued interest receivable.

Risk assets decreased from December 31, 2019 to December 31, 2020, and remain at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management parameters.

The decrease in non-accrual loans was primarily due to proactively working with financially stressed accounts leading to timely resolutions. Non-accrual loans remained at an acceptable level at December 31, 2020, 2019, and 2018.

Accruing restructured loans decreased modestly due to ongoing repayments outpacing the volume of newly restructured loans. Transfers to our Special Assets team slowed during 2020 reflecting the overall improvement in portfolio credit quality.

The increase in accruing loans 90 days or more past due came primarily from USDA guaranteed assets with servicing actions approved, but awaiting documents from the servicing lender. The loans are well secured and full payment is expected. Our accounting policy requires loans past due 90 days or more to be transferred into non-accrual status unless adequately secured and a plan in place to collect past due amounts. Based on our analysis, all accruing loans 90 days or more past due were eligible to remain in accruing status.

The decrease in other property owned was the result of aggressive management of owned properties, improving overall credit quality, and the mandatory freeze on litigation as part of the COVID-19 response. Other property owned remained at acceptable levels with limited additions during the year.

ALLOWANCE FOR LOAN LOSSES

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

Allowance Coverage Ratios

AS OF DECEMBER 31	2020	2019	2018
Allowance as a percentage of:			
Loans	**0.3%**	0.3%	0.5%
Non-accrual loans	**41.3%**	29.0%	36.6%
Total risk loans	**31.9%**	24.2%	32.2%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to capital and allowance for loan losses	**13.4%**	16.8%	16.7%

The allowance for loan losses and provision for loan losses increased due to increased volume in 2020 and updated loss assumptions related to the COVID-19 pandemic. 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. Investment securities totaled $456.1 million, $476.7 million, and $90.9 million at December 31, 2020, 2019, and 2018, respectively. Our investment securities primarily consisted of securities containing pools of loans guaranteed by the SBA.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2020, 2019, and 2018, 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) FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Net income	**$396,842**	$423,003	$393,601
Return on average assets	**1.59%**	1.76%	1.74%
Return on average members' equity	**7.87%**	8.73%	8.57%

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

NET INTEREST INCOME

Changes in Net Interest Income

(IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31	2020 vs 2019	2019 vs 2018
Changes in volume	**$21,759**	$35,433
Changes in interest rates	**(6,715)**	(13,638)
Changes in non-accrual income and other	**(417)**	(1,746)
Net change	**$14,627**	$20,049

Net interest income included income on non-accrual loans that totaled $13.2 million, $13.6 million, and $15.4 million in 2020, 2019, and 2018, respectively. Non-accrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered. See the Regulatory Matters section for discussion regarding revised criteria to reinstate non-accrual loans to accrual status.

Net interest margin (net interest income as a percentage of average earning assets) was 2.2% in each 2020, 2019, and 2018.

PROVISION FOR (REVERSAL OF) LOAN CREDIT LOSSES

The increase in the provision for (reversal of) loan credit losses was driven by increased volume in 2020 and updated loss assumptions related to the COVID-19 pandemic. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

Changes in Significant Components of Net Income

(IN THOUSANDS)	For the year ended December 31			Increase (decrease) in net income	
	2020	2019	2018	2020 vs 2019	2019 vs 2018
Net interest income	**$522,953**	$508,326	$488,277	**$14,627**	$20,049
Provision for (reversal of) credit losses	**11,318**	(22,761)	8,056	**(34,079)**	30,817
Non-interest income	**210,679**	160,936	155,931	**49,743**	5,005
Non-interest expense	**316,930**	265,224	233,193	**(51,706)**	(32,031)
Provision for income taxes	**8,542**	3,796	9,358	**(4,746)**	5,562
Net income	**$396,842**	$423,003	$393,601	**$(26,161)**	$29,402

NON-INTEREST INCOME

The change in non-interest income was primarily due to increases in patronage income and fee income compared to prior year.

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

Patronage Income

(IN THOUSANDS)

FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Patronage from AgriBank	**$136,232**	$109,467	$101,341
AgDirect partnership distribution	**5,266**	5,048	4,395
Other patronage	**1,174**	147	501
Total patronage income	**$142,672**	$114,662	$106,237
Form of patronage distributions:			
Cash	**$142,672**	$65,696	$106,237
Stock	**—**	48,966	—
Total patronage income	**$142,672**	$114,662	$106,237

The increase in patronage was primarily due to an increase in wholesale patronage, which is largely a result of a higher patronage rate compared to prior year. Patronage from AgriBank primarily includes wholesale patronage and pool program patronage. The Consumer Lending asset pool sale to AgriBank on May 1, 2020 also contributed to the increase in 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.

Fee Income: The increase in fee income was primarily due to increased loan originations.

NON-INTEREST EXPENSE

Components of Non-interest Expense

(DOLLARS IN THOUSANDS)

FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Salaries and employee benefits	**$202,094**	$167,996	$147,776
Other operating expense:			
Purchased and vendor services	**26,733**	18,039	15,746
Communications	**4,062**	4,309	4,285
Occupancy and equipment	**28,420**	24,983	18,489
Advertising and promotion	**15,939**	12,738	10,328
Examination	**3,593**	3,642	3,548
Farm Credit System insurance	**17,897**	16,377	15,653
Other	**13,947**	16,898	17,229
Other non-interest expense	**4,245**	242	139
Total non-interest expense	**$316,930**	$265,224	$233,193
Operating rate	**1.3%**	1.1%	1.1%

Salaries and employee benefits expense increased primarily due increased staffing levels and Association initiatives.

Purchased and vendor services increased primarily due to the Rural 1st partner fees paid to partnering associations during 2020 as a result of increased Rural 1st originations.

Other non-interest expense increased due to the loss associated with the sale of real estate and rural residential real estate loans sold to AgriBank as part of the Consumer Lending asset pool sale.

PROVISION FOR INCOME TAXES

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. The reduced patronage deduction in 2020 was the primary driver of the increased provision for income taxes. 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 $3.2 billion available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(DOLLARS IN THOUSANDS)

FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Average balance	**$19,617,871**	$18,847,539	$17,759,590
Average interest rate	**2.0%**	2.8%	2.6%

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.

CAPITAL ADEQUACY

Total members' equity was $5.1 billion, $4.9 billion, and $4.7 billion at December 31, 2020, 2019, and 2018, respectively. Total members' equity increased $201.8 million from December 31, 2019, primarily due to net income for the year and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

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	**19.6%**	20.8%	20.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**19.6%**	20.8%	20.9%	6.0%	2.5%	8.5%
Total capital ratio	**20.0%**	21.2%	21.4%	8.0%	2.5%	10.5%
Permanent capital ratio	**19.7%**	20.9%	21.0%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**18.5%**	19.1%	19.2%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.4%**	19.3%	19.3%	1.5%	N/A	1.5%

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

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio 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 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target range is 15% to 17%, as defined in our 2021 capital plan.

At the December 2020 Board of Directors' Meeting, the Board passed a Patronage Obligating Resolution that outlines the intent of the Association to refund patronage-sourced net earnings for the calendar year 2021 to eligible patrons of the Association. 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, cost of liquidity, and bank profit
- A risk premium component, if applicable

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

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

INVESTMENT

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

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

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

PATRONAGE

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

PURCHASED SERVICES

As of December 31, 2020, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, tax reporting, and insurance services from AgriBank. These services are now offered by SunStream. For further discussion on our relationship with SunStream see the Other Relationships and Programs section. 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: During 2020, we began participating 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. We sell 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.

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 $661 thousand, $493 thousand, and $413 thousand at December 31, 2020, 2019, and 2018, respectively.

SunStream Business Services: We have a relationship with SunStream, which involves purchasing financial and retail information technology, collateral, tax reporting, and insurance services. SunStream was a division of AgriBank prior to April 1, 2020, when SunStream formed a separate System service corporation, of which we are a partial owner. Our entire investment in SunStream was called on April 1, 2020, at which time $3.1 million was paid in cash and the remainder was paid in January 2021. As of December 31, 2020, our investment in SunStream was $5.6 million. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource, benefit, payroll, and workforce management services. As of December 31, 2020, 2019, and 2018, our investment in Foundations was $113 thousand. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

Rural Business Investment Company: We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). Refer to Note 11 to the accompanying Consolidated Financial Statements for further discussion.

Farm Credit Services of America: We have a relationship with Farm Credit Services of America, an AgriBank District association headquartered in Nebraska, which involves partnering on agricultural purpose loan origination systems.

Rural 1st: We renamed our consumer lending division Rural 1st in mid-2018 to deliver specialized products and services for people looking to make the move to rural living through recreation land and home purchases, home equity and construction projects. Beginning in 2019, we partnered on Rural 1st with other Farm Credit associations, both inside and outside the AgriBank District. Under these partnership agreements, Farm Credit Mid-America pays fees to partner associations for loan volume originated in their territories. During 2020 and 2019, fees paid to Rural 1st partners were $8.8 million and $1.5 million, respectively. Future partnerships with other associations are expected.

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 $41.9 million, $34.5 million, and $32.2 million at December 31, 2020, 2019, and 2018, respectively.

PROGRAMS

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

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

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

REGULATORY MATTERS

CRITERIA TO REINSTATE NON-ACCRUAL 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 non-accrual 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.

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

We prepare the Consolidated Financial Statements of Farm Credit Mid-America, 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.

ANDREW WILSON
Chair of the Board
Farm Credit Mid-America, ACA

WILLIAM L. JOHNSON
President and Chief Executive Officer
Farm Credit Mid-America, ACA

STEVE ZAGAR
Senior Vice President and Chief Financial Officer
Farm Credit Mid-America, ACA

March 12, 2021

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Farm Credit Mid-America, 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.

William L Johnson

WILLIAM L. JOHNSON
President and Chief Executive Officer
Farm Credit Mid-America, ACA

Steve Zagar

STEVE ZAGAR
Senior Vice President and Chief Financial Officer
Farm Credit Mid-America, ACA

March 12, 2021

REPORT OF AUDIT COMMITTEE

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 Mid-America, 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.

STEVEN R. BUSH
Chair of the Audit Committee
Farm Credit Mid-America, ACA

Audit Committee Members:
Rachael M. Vonderhaar
Kaye Hurst Whitehead
Brandon Robbins

March 12, 2021

pwc

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Farm Credit Mid-America, ACA,

We have audited the accompanying Consolidated Financial Statements of Farm Credit Mid-America, 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 Mid-America, 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 12, 2021

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

CONSOLIDATED STATEMENTS OF CONDITION

(IN THOUSANDS) AS OF DECEMBER 31	2020	2019	2018
ASSETS			
Loans	**$24,619,166**	$23,483,766	$22,317,940
Allowance for loan losses	**82,867**	76,898	103,549
Net loans	**24,536,299**	23,406,868	22,214,391
Investment in AgriBank, FCB	**690,787**	517,435	442,516
Investment securities	**456,074**	476,728	90,911
Accrued interest receivable	**197,261**	207,924	200,200
Assets held for lease, net	**60,572**	95,017	135,276
Other assets	**338,172**	299,311	277,246
Total assets	**$26,279,165**	$25,003,283	$23,360,540
LIABILITIES			
Note payable to AgriBank, FCB	**$20,738,979**	$19,634,081	$18,294,059
Accrued interest payable	**84,150**	128,990	122,797
Deferred tax liabilities, net	**6,674**	17,974	26,889
Patronage distribution payable	**200,004**	186,600	146,023
Other liabilities	**105,030**	93,080	62,969
Total liabilities	**21,134,837**	20,060,725	18,652,737
Contingencies and commitments (Note 11)			
MEMBERS' EQUITY			
Capital stock and participation certificates	**77,157**	74,791	78,260
Unallocated surplus	**5,068,119**	4,868,756	4,630,441
Accumulated other comprehensive loss	**(948)**	(989)	(898)
Total members' equity	**5,144,328**	4,942,558	4,707,803
Total liabilities and members' equity	**$26,279,165**	$25,003,283	$23,360,540

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Interest income	**$923,672**	$1,034,176	$943,746
Interest expense	**400,719**	525,850	455,469
Net interest income	**522,953**	508,326	488,277
Provision for (reversal of) credit losses	**11,318**	(22,761)	8,056
Net interest income after provision for (reversal of) credit losses	**511,635**	531,087	480,221
Non-interest income			
Patronage income	**142,672**	114,662	106,237
Financially related services income	**10,489**	10,448	10,438
Fee income	**52,965**	33,767	27,203
Operating lease income	**2,253**	2,925	2,083
Other property owned losses, net	**(306)**	(3,637)	(1,470)
Allocated Insurance Reserve Accounts distribution	**4,631**	4,922	12,556
Other non-interest loss	**(2,025)**	(2,151)	(1,116)
Total non-interest income	**210,679**	160,936	155,931
Non-interest expense			
Salaries and employee benefits	**202,094**	167,996	147,776
Other operating expense	**110,591**	96,986	85,278
Other non-interest expense	**4,245**	242	139
Total non-interest expense	**316,930**	265,224	233,193
Income before income taxes	**405,384**	426,799	402,959
Provision for income taxes	**8,542**	3,796	9,358
Net income	**$396,842**	$423,003	$393,601
Other comprehensive income (loss) Employee benefit plans activity	**$41**	$(91)	$142
Total other comprehensive income (loss)	**41**	(91)	142
Comprehensive income	**$396,883**	$422,912	$393,743

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(IN THOUSANDS)	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2017	$81,474	$4,381,202	$(1,040)	$4,461,636
Net income	–	393,601	–	393,601
Other comprehensive income	–	–	142	142
Unallocated surplus designated for patronage distributions	–	(144,362)	–	(144,362)
Capital stock and participation certificates issued	3,200	–	–	3,200
Capital stock and participation certificates retired	(6,414)	–	–	(6,414)
Balance as of December 31, 2018	78,260	4,630,441	(898)	4,707,803
Net income	–	423,003	–	423,003
Other comprehensive loss	–	–	(91)	(91)
Unallocated surplus designated for patronage distributions	–	(184,680)	–	(184,680)
Cumulative effect of change in accounting principle	–	(8)	–	(8)
Capital stock and participation certificates issued	5,308	–	–	5,308
Capital stock and participation certificates retired	(8,777)	–	–	(8,777)
Balance as of December 31, 2019	74,791	4,868,756	(989)	4,942,558
Net income	**–**	**396,842**	**–**	**396,842**
Other comprehensive income	**–**	**–**	**41**	**41**
Unallocated surplus designated for patronage distributions	**–**	**(197,479)**	**–**	**(197,479)**
Capital stock and participation certificates issued	**9,758**	**–**	**–**	**9,758**
Capital stock and participation certificates retired	**(7,392)**	**–**	**–**	**(7,392)**
Balance as of December 31, 2020	**$77,157**	**$5,068,119**	**$(948)**	**$5,144,328**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Cash flows from operating activities			
Net income	**$396,842**	$423,003	$393,601
Depreciation on premises and equipment	**12,989**	9,051	8,604
Loss on sale of premises and equipment, net	**15**	219	44
Depreciation on assets held for lease	**18,042**	26,628	32,524
Loss on disposal of assets held for lease, net	**2,531**	2,639	9,347
Amortization of premiums on loans and investment securities	**30,463**	33,122	23,243
Provision for (reversal of) credit losses	**11,318**	(22,761)	8,056
Stock patronage received from Farm Credit Institutions	**(168)**	(49,045)	(92)
Loss on other property owned, net	**249**	3,427	1,253
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	**(9,304)**	(22,143)	(34,152)
Increase in other assets	**(24,635)**	(3,117)	(20,968)
(Decrease) increase in accrued interest payable	**(44,840)**	6,193	22,637
(Decrease) increase in other liabilities	**(1,809)**	21,104	(24,347)
Net cash provided by operating activities	**391,693**	428,320	419,750
Cash flows from investing activities			
Increase in loans, net	**(1,149,601)**	(1,185,531)	(899,587)
Purchases of investment in AgriBank, FCB, net	**(173,352)**	(25,953)	(813)
Purchases of investment in other Farm Credit Institutions, net	**(10,513)**	(2,273)	(1,204)
Purchases of investment securities	**(61,546)**	(446,896)	—
Proceeds from maturing investment securities	**73,408**	53,531	17,531
Sales (purchases) of assets held for lease, net	**13,872**	10,992	(4,089)
Proceeds from sales of other property owned	**9,065**	6,810	9,068
Purchases of premises and equipment, net	**(16,078)**	(32,441)	(38,363)
Net cash used in investing activities	**(1,314,745)**	(1,621,761)	(917,457)
Cash flows from financing activities			
Increase in note payable to AgriBank, FCB, net	**1,104,898**	1,340,022	585,714
Patronage distributions paid	**(184,075)**	(144,102)	(86,240)
Capital stock and participation certificates issued (retired), net	**2,229**	(2,479)	(1,767)
Net cash provided by financing activities	**923,052**	1,193,441	497,707
Net change in cash	**—**	—	—
Cash at beginning of year	**—**	—	—
Cash at end of year	**$—**	$—	$—
Supplemental information			
Interest paid	**$445,559**	$519,657	$432,832
Taxes paid, net	**22,047**	11,674	18,458

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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 non-accrual 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 Mid-America, ACA (the Association) and its subsidiaries, Farm Credit Mid-America, FLCA and Farm Credit Mid-America, 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 all counties in Indiana; all counties in Ohio, with the exception of Marion, Crawford, Wyandot, Hancock, Seneca, Wood, Ottawa, Lucas, and Sandusky; all counties in Kentucky, with the exception of Graves, Hickman, Carlisle, Fulton, Ballard, McCracken, Calloway, and Marshall; and all counties in Tennessee.

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 and holds certain types of investments.

We offer crop insurance to borrowers and those eligible to borrow. We also offer fee appraisal services to our members.

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 Mid-America, 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 taken as a whole.

Generally we place loans in non-accrual 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 non-accrual 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 non-accrual 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. Non-accrual 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, also known as a formally restructured loan for regulatory purposes. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans (as defined below). There may be modifications made related to the COVID-19 pandemic or in the normal course of business that would not be considered troubled debt restructurings (TDRs).

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

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

OTHER INVESTMENTS: The carrying amount of the investments in the Rural Business Investment Companies, in which we are a limited partner and hold non-controlling interests, are accounted for under the equity method. The investments 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.

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.

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

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

We are the lessor in finance and operating leases. Under finance leases, unearned income from lease contracts represents the excess of gross lease receivables plus residual receivables over the cost of leased equipment. We amortize net unearned finance lease income to earnings using the interest method. The carrying amount of finance leases is included in "Loans" in the Consolidated Statements of Condition and represents lease rent and residual receivables net of the unearned income. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual value. We recognize operating lease revenue evenly over the term of the lease and charge depreciation and other expenses against revenue as incurred in "Operating lease income" in the Consolidated Statements of Comprehensive Income. The amortized cost of operating leases is included in "Assets held for lease, net" in the Consolidated Statements of Condition and represents the asset cost net of accumulated depreciation.

POST-EMPLOYMENT BENEFIT PLANS: The District has various post-employment benefit plans in which our employees participate. Expenses related to these plans, except for the AgriBank District Pension Restoration Plan, are included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

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

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

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

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

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

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

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

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

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

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.
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments — Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for 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.

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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	**$15,586,259**	**63.3%**	$14,927,079	63.6%	$14,208,338	63.7%
Production and intermediate-term	**4,234,849**	**17.2%**	4,071,670	17.3%	3,847,499	17.2%
Agribusiness	**2,613,561**	**10.6%**	2,088,621	8.9%	1,732,270	7.8%
Rural residential real estate	**775,520**	**3.2%**	919,607	3.9%	877,138	3.9%
Finance leases and other	**1,408,977**	**5.7%**	1,476,789	6.3%	1,652,695	7.4%
Total	**$24,619,166**	**100.0%**	$23,483,766	100.0%	$22,317,940	100.0%

The finance leases and other category is primarily composed of certain assets originated under the mission related investment authority and rural infrastructure related loans, as well as lease receivables.

PORTFOLIO CONCENTRATIONS

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

As of December 31, 2020, volume plus commitments to our ten largest borrowers totaled an amount equal to 3.8% of total loans and commitments.

Total loans plus any unfunded commitments represent a proportionate maximum potential credit risk. However, substantial portions of our lending activities are collateralized. Accordingly, the credit risk associated with lending activities is less than the recorded loan principal. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include real estate, equipment, inventory, livestock, and income-producing property. Long-term real estate loans are secured by the first liens on the underlying real property.

PARTICIPATIONS

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

Participations Purchased and Sold

(IN THOUSANDS)	AgriBank		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
As of December 31, 2020								
Real estate mortgage	**$—**	**$(1,634,782)**	**$504,401**	**$(14,242)**	**$1,574,189**	**$(24,436)**	**$2,078,590**	**$(1,673,460)**
Production and intermediate-term	**—**	**(11,915)**	**819,836**	**(12,156)**	**460,588**	**(540)**	**1,280,424**	**(24,611)**
Agribusiness	**—**	**(61,944)**	**1,216,152**	**(737,339)**	**489,809**	**(1,059)**	**1,705,961**	**(800,342)**
Rural residential real estate	**—**	**(265,222)**	**—**	**—**	**136,301**	**—**	**136,301**	**(265,222)**
Finance leases and other	**—**	**—**	**152,910**	**—**	**43,008**	**—**	**195,918**	**—**
Total	**$—**	**$(1,973,863)**	**$2,693,299**	**$(763,737)**	**$2,703,895**	**$(26,035)**	**$5,397,194**	**$(2,763,635)**
As of December 31, 2019								
Real estate mortgage	$—	$(190,856)	$440,313	$(14,704)	$1,394,891	$(23,082)	$1,835,204	$(228,642)
Production and intermediate-term	—	—	582,653	(14,553)	439,658	(645)	1,022,311	(15,198)
Agribusiness	—	(3,068)	1,001,147	(337,801)	329,264	(1,181)	1,330,411	(342,050)
Rural residential real estate	—	—	45	—	68,776	—	68,821	—
Finance leases and other	—	—	137,059	—	75,926	—	212,985	—
Total	$—	$(193,924)	$2,161,217	$(367,058)	$2,308,515	$(24,908)	$4,469,732	$(585,890)
As of December 31, 2018								
Real estate mortgage	$—	$(230,506)	$359,884	$(17,866)	$1,315,111	$(19,325)	$1,674,995	$(267,697)
Production and intermediate-term	—	—	556,914	(15,286)	335,148	(388)	892,062	(15,674)
Agribusiness	—	(236)	917,204	(135,420)	291,451	(1,282)	1,208,655	(136,938)
Rural residential real estate	—	—	52	—	5,236	—	5,288	—
Finance leases and other	—	—	122,782	—	104,503	—	227,285	—
Total	$—	$(230,742)	$1,956,836	$(168,572)	$2,051,449	$(20,995)	$4,008,285	$(420,309)

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	
	Amount	%	Amount	%	Amount	%	Amount	%
As of December 31, 2020								
Real estate mortgage	**$14,705,777**	**93.6%**	**$559,869**	**3.6%**	**$448,683**	**2.8%**	**$15,714,329**	**100.0%**
Production and intermediate-term	**3,837,556**	**89.8%**	**241,883**	**5.7%**	**193,192**	**4.5%**	**4,272,631**	**100.0%**
Agribusiness	**2,483,679**	**94.6%**	**116,136**	**4.4%**	**25,617**	**1.0%**	**2,625,432**	**100.0%**
Rural residential real estate	**753,189**	**96.8%**	**1,445**	**0.2%**	**23,213**	**3.0%**	**777,847**	**100.0%**
Finance leases and other	**1,422,191**	**99.9%**	**266**	**0.0%**	**901**	**0.1%**	**1,423,358**	**100.0%**
Total	**$23,202,392**	**93.5%**	**$919,599**	**3.7%**	**$691,606**	**2.8%**	**$24,813,597**	**100.0%**
As of December 31, 2019								
Real estate mortgage	$14,077,185	93.5%	$472,963	3.1%	$507,600	3.4%	$15,057,748	100.0%
Production and intermediate-term	3,621,064	87.8%	230,256	5.6%	272,182	6.6%	4,123,502	100.0%
Agribusiness	2,025,048	96.5%	45,017	2.1%	28,829	1.4%	2,098,894	100.0%
Rural residential real estate	893,905	96.9%	1,679	0.2%	26,880	2.9%	922,464	100.0%
Finance leases and other	1,483,558	99.9%	272	0.0%	1,070	0.1%	1,484,900	100.0%
Total	$22,100,760	93.3%	$750,187	3.2%	$836,561	3.5%	$23,687,508	100.0%
As of December 31, 2018								
Real estate mortgage	$13,444,376	93.8%	$384,439	2.7%	$505,150	3.5%	$14,333,965	100.0%
Production and intermediate-term	3,413,961	87.5%	264,518	6.8%	222,747	5.7%	3,901,226	100.0%
Agribusiness	1,695,824	97.4%	12,216	0.7%	33,595	1.9%	1,741,635	100.0%
Rural residential real estate	845,986	96.2%	1,970	0.2%	31,824	3.6%	879,780	100.0%
Finance leases and other	1,650,104	99.4%	8,858	0.5%	1,415	0.1%	1,660,377	100.0%
Total	$21,050,251	93.5%	$672,001	3.0%	$794,731	3.5%	$22,516,983	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(IN THOUSANDS)	30–89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
As of December 31, 2020						
Real estate mortgage	**$25,130**	**$32,294**	**$57,424**	**$15,656,905**	**$15,714,329**	**$—**
Production and intermediate-term	**4,140**	**15,667**	**19,807**	**4,252,824**	**4,272,631**	**1,137**
Agribusiness	**376**	**589**	**965**	**2,624,467**	**2,625,432**	**—**
Rural residential real estate	**4,675**	**2,857**	**7,532**	**770,315**	**777,847**	**86**
Finance leases and other	**95,185**	**41,331**	**136,516**	**1,286,842**	**1,423,358**	**41,196**
Total	**$129,506**	**$92,738**	**$222,244**	**$24,591,353**	**$24,813,597**	**$42,419**
As of December 31, 2019						
Real estate mortgage	$45,496	$33,638	$79,134	$14,978,614	$15,057,748	$267
Production and intermediate-term	14,506	22,033	36,539	4,086,963	4,123,502	77
Agribusiness	333	1,413	1,746	2,097,148	2,098,894	–
Rural residential real estate	34,827	2,783	37,610	884,854	922,464	–
Finance leases and other	56,170	34,058	90,228	1,394,672	1,484,900	33,869
Total	$151,332	$93,925	$245,257	$23,442,251	$23,687,508	$34,213
As of December 31, 2018						
Real estate mortgage	$56,287	$31,891	$88,178	$14,245,787	$14,333,965	$1,725
Production and intermediate-term	25,087	25,743	50,830	3,850,396	3,901,226	2,397
Agribusiness	8	66	74	1,741,561	1,741,635	–
Rural residential real estate	6,814	3,327	10,141	869,639	879,780	75
Finance leases and other	39,646	14,783	54,429	1,605,948	1,660,377	14,646
Total	$127,842	$75,810	$203,652	$22,313,331	$22,516,983	$18,843

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 non-accrual risk loans are applied as described in Note 2.

Risk Loan Information

(IN THOUSANDS) AS OF DECEMBER 31	2020	2019	2018
Non-accrual loans:			
Current as to principal and interest	**$136,958**	$179,367	$199,554
Past due	**63,628**	85,749	83,005
Total non-accrual loans	**200,586**	265,116	282,559
Accruing restructured loans	**17,130**	19,057	19,698
Accruing loans 90 days or more past due	**42,419**	34,213	18,843
Total risk loans	**$260,135**	$318,386	$321,100
Volume with specific allowance	**$15,245**	$23,444	$22,720
Volume without specific allowance	**244,890**	294,942	298,380
Total risk loans	**$260,135**	$318,386	$321,100
Total specific allowance	**$8,668**	$10,627	$11,680

FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Income on accrual risk loans	**$3,410**	$2,041	$1,714
Income on non-accrual loans	**13,227**	13,644	15,390
Total income on risk loans	**$16,637**	$15,685	$17,104
Average risk loans	**$312,191**	$312,127	$349,491

Note: Accruing loans include accrued interest receivable.

Non-accrual Loans by Loan Type

(IN THOUSANDS) AS OF DECEMBER 31	2020	2019	2018
Real estate mortgage	**$153,983**	$192,403	$211,738
Production and intermediate-term	**37,211**	60,089	56,391
Agribusiness	**680**	1,545	447
Rural residential real estate	**8,459**	10,812	13,750
Finance leases and other	**253**	267	233
Total	**$200,586**	$265,116	$282,559

Additional Impaired Loan Information by Loan Type

(IN THOUSANDS)

	As of December 31, 2020			For the year ended December 31, 2020	
	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	$6,231	$6,448	$5,323	$8,184	$—
Production and intermediate-term	8,442	12,934	3,141	11,251	—
Agribusiness	91	123	91	92	—
Rural residential real estate	481	526	113	380	—
Finance leases and other	—	—	—	—	—
Total	$15,245	$20,031	$8,668	$19,907	$—
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$161,963	$190,339	$—	$178,257	$9,674
Production and intermediate-term	31,502	47,733	—	43,651	3,930
Agribusiness	589	640	—	889	—
Rural residential real estate	9,386	11,408	—	11,168	674
Finance leases and other	41,450	38,402	—	58,319	2,359
Total	$244,890	$288,522	$—	$292,284	$16,637
Total impaired loans:					
Real estate mortgage	$168,194	$196,787	$5,323	$186,441	$9,674
Production and intermediate-term	39,944	60,667	3,141	54,902	3,930
Agribusiness	680	763	91	981	—
Rural residential real estate	9,867	11,934	113	11,548	674
Finance leases and other	41,450	38,402	—	58,319	2,359
Total	$260,135	$308,553	$8,668	$312,191	$16,637

	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	$10,897	$11,295	$7,713	$11,243	$—
Production and intermediate-term	12,073	15,176	2,682	12,917	—
Agribusiness	95	125	95	353	—
Rural residential real estate	379	413	137	427	—
Finance leases and other	—	—	—	—	—
Total	$23,444	$27,009	$10,627	$24,940	$—
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$196,872	$224,492	$—	$203,127	$6,664
Production and intermediate-term	50,626	65,909	—	54,166	7,297
Agribusiness	1,449	1,397	—	587	3
Rural residential real estate	11,858	14,230	—	13,365	1,006
Finance leases and other	34,137	31,368	—	15,942	715
Total	$294,942	$337,396	$—	$287,187	$15,685
Total impaired loans:					
Real estate mortgage	$207,769	$235,787	$7,713	$214,370	$6,664
Production and intermediate-term	62,699	81,085	2,682	67,083	7,297
Agribusiness	1,544	1,522	95	940	3
Rural residential real estate	12,237	14,643	137	13,792	1,006
Finance leases and other	34,137	31,368	—	15,942	715
Total	$318,386	$364,405	$10,627	$312,127	$15,685

	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	$10,358	$10,705	$8,183	$11,105	$—
Production and intermediate-term	11,331	13,639	2,941	13,100	—
Agribusiness	380	440	380	497	—
Rural residential real estate	651	694	176	721	—
Finance leases and other	—	—	—	—	—
Total	$22,720	$25,478	$11,680	$25,423	$—
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$219,071	$244,667	$—	$234,884	$12,042
Production and intermediate-term	49,683	64,042	—	57,441	3,306
Agribusiness	67	62	—	343	—
Rural residential real estate	14,679	17,601	—	16,243	1,116
Finance leases and other	14,880	14,348	—	15,157	640
Total	$298,380	$340,720	$—	$324,068	$17,104
Total impaired loans:					
Real estate mortgage	$229,429	$255,372	$8,183	$245,989	$12,042
Production and intermediate-term	61,014	77,681	2,941	70,541	3,306
Agribusiness	447	502	380	840	—
Rural residential real estate	15,330	18,295	176	16,964	1,116
Finance leases and other	14,880	14,348	—	15,157	640
Total	$321,100	$366,198	$11,680	$349,491	$17,104

[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 material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2020.

TROUBLED DEBT RESTRUCTURINGS (TDRs)

Included within our 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) FOR THE YEAR ENDED DECEMBER 31	2020		2019		2018	
	Pre-modification	Post-modification	Pre-modification	Post-modification	Pre-modification	Post-modification
Real estate mortgage	**$1,353**	**$1,353**	$4,720	$4,720	$10,130	$10,134
Production and intermediate-term	**201**	**201**	2,053	2,053	1,609	1,611
Rural residential real estate	**43**	**43**	126	126	96	97
Total	**$1,597**	**$1,597**	$6,899	$6,899	$11,835	$11,842

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 interest rate reduction below market, forgiveness of principal and interest, or extension of maturity.

TDRs that Occurred Within the Previous 12 Months that Subsequently Defaulted

(IN THOUSANDS)	2020	2019	2018
Real estate mortgage	**$227**	$698	$81
Production and intermediate-term	**—**	90	—
Rural residential real estate	**35**	4	—
Total	**$262**	$792	$81

TDRs Outstanding

(IN THOUSANDS) AS OF DECEMBER 31	2020	2019	2018
Accrual status:			
Real estate mortgage	**$14,211**	$15,100	$15,967
Production and intermediate-term	**1,597**	2,533	2,226
Rural residential real estate	**1,322**	1,424	1,505
Total TDRs in accrual status	**$17,130**	$19,057	$19,698
Non-accrual status:			
Real estate mortgage	**$13,392**	$15,470	$13,187
Production and intermediate-term	**3,038**	3,626	3,060
Rural residential real estate	**639**	796	907
Total TDRs in non-accrual status	**$17,069**	$19,892	$17,154
Total TDRs:			
Real estate mortgage	**$27,603**	$30,570	$29,154
Production and intermediate-term	**4,635**	6,159	5,286
Rural residential real estate	**1,961**	2,220	2,412
Total TDRs	**$34,199**	$38,949	$36,852

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

ALLOWANCE FOR LOAN LOSSES

Changes in Allowance for Loan Losses

(IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Balance at beginning of year	**$76,898**	$103,549	$103,658
Provision for (reversal of) loan losses	**10,904**	(23,252)	8,771
Loan recoveries	**3,366**	3,802	3,566
Loan charge-offs	**(8,301)**	(7,201)	(12,446)
Balance at end of year	**$82,867**	$76,898	$103,549

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

Credit Loss Information on Unfunded Commitments

(IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Provision for (reversal of) credit losses	**$414**	$491	$(715)

AS OF DECEMBER 31	2020	2019	2018
Accrued credit losses	**$7,355**	$6,940	$6,449

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

(IN THOUSANDS)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Residential Real Estate	Finance Leases and Other	Total
Allowance for loan losses:						
Balance as of December 31, 2019	**$29,455**	**$34,541**	**$10,468**	**$1,708**	**$726**	**$76,898**
Provision for (reversal of) loan losses	**1,239**	**6,816**	**2,860**	**149**	**(160)**	**10,904**
Loan recoveries	**1,112**	**2,084**	**—**	**170**	**—**	**3,366**
Loan charge-offs	**(1,506)**	**(6,400)**	**—**	**(395)**	**—**	**(8,301)**
Balance as of December 31, 2020	**$30,300**	**$37,041**	**$13,328**	**$1,632**	**$566**	**$82,867**
Ending balance: individually evaluated for impairment	**$5,323**	**$3,141**	**$91**	**$113**	**$—**	**$8,668**
Ending balance: collectively evaluated for impairment	**$24,977**	**$33,900**	**$13,237**	**$1,519**	**$566**	**$74,199**
Recorded investment in loans outstanding:						
Ending balance as of December 31, 2020	**$15,714,329**	**$4,272,631**	**$2,625,432**	**$777,847**	**$1,423,358**	**$24,813,597**
Ending balance: individually evaluated for impairment	**$168,194**	**$39,944**	**$680**	**$9,867**	**$41,450**	**$260,135**
Ending balance: collectively evaluated for impairment	**$15,546,135**	**$4,232,687**	**$2,624,752**	**$767,980**	**$1,381,908**	**$24,553,462**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Rural Residential Real Estate	Finance Leases and Other	Total
Allowance for loan losses:						
Balance as of December 31, 2018	$39,056	$47,636	$12,786	$2,712	$1,359	$103,549
Reversal of loan losses	(9,723)	(10,014)	(2,106)	(776)	(633)	(23,252)
Loan recoveries	1,618	2,011	–	173	–	3,802
Loan charge-offs	(1,496)	(5,092)	(212)	(401)	–	(7,201)
Balance as of December 31, 2019	$29,455	$34,541	$10,468	$1,708	$726	$76,898
Ending balance: individually evaluated for impairment	$7,713	$2,682	$95	$137	$–	$10,627
Ending balance: collectively evaluated for impairment	$21,742	$31,859	$10,373	$1,571	$726	$66,271
Recorded investment in loans outstanding:						
Ending balance as of December 31, 2019	$15,057,748	$4,123,502	$2,098,894	$922,464	$1,484,900	$23,687,508
Ending balance: individually evaluated for impairment	$207,769	$62,699	$1,544	$12,237	$34,137	$318,386
Ending balance: collectively evaluated for impairment	$14,849,979	$4,060,803	$2,097,350	$910,227	$1,450,763	$23,369,122
Allowance for loan losses:						
Balance as of December 31, 2017	$40,354	$41,652	$16,521	$3,466	$1,665	$103,658
Provision for (reversal of) loan losses	1,392	11,569	(3,735)	(149)	(306)	8,771
Loan recoveries	1,280	1,928	–	358	–	3,566
Loan charge-offs	(3,970)	(7,513)	–	(963)	–	(12,446)
Balance as of December 31, 2018	$39,056	$47,636	$12,786	$2,712	$1,359	$103,549
Ending balance: individually evaluated for impairment	$8,183	$2,941	$380	$176	$–	$11,680
Ending balance: collectively evaluated for impairment	$30,873	$44,695	$12,406	$2,536	$1,359	$91,869
Recorded investment in loans outstanding:						
Ending balance as of December 31, 2018	$14,333,965	$3,901,226	$1,741,635	$879,780	$1,660,377	$22,516,983
Ending balance: individually evaluated for impairment	$229,429	$61,014	$447	$15,330	$14,880	$321,100
Ending balance: collectively evaluated for impairment	$14,104,536	$3,840,212	$1,741,188	$864,450	$1,645,497	$22,195,883

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.

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INVESTMENT IN AGRIBANK

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

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

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

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INVESTMENT SECURITIES

We held investment securities of $456.1 million, $476.7 million, and $90.9 million at December 31, 2020, 2019, and 2018, respectively. Our investment securities consisted of pools of loans guaranteed by the Small Business Administration (SBA), except for $6.4 million, $6.7 million, and $7.0 million at December 31, 2020, 2019, and 2018, respectively, of which were not guaranteed.

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, 2019, and 2018, we have not recognized any impairment on our investment portfolio.

Our investments are either mortgage-backed securities (MBS), which are generally longer-term investments, or asset-backed securities (ABS), which are generally shorter-term investments. SBA guaranteed investments may be comprised of either MBS or ABS.

Additional Investment Securities Information

(DOLLARS IN THOUSANDS)

AS OF DECEMBER 31, 2020	Weighted Average Yield	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
MBS	**1.7%**	**$255,518**	**$7,993**	**$99**	**$263,412**
ABS	**1.3%**	**200,556**	**6,742**	**—**	**207,298**
Total	**1.5%**	**$456,074**	**$14,735**	**$99**	**$470,710**

AS OF DECEMBER 31, 2019	Weighted Average Yield	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
MBS	3.3%	$301,497	$4,574	$499	$305,572
ABS	2.9%	175,231	297	460	175,068
Total	3.1%	$476,728	$4,871	$959	$480,640

AS OF DECEMBER 31, 2018	Weighted Average Yield	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
MBS	3.2%	$86,290	$2,388	$371	$88,307
ABS	4.1%	4,621	89	1	4,709
Total	3.3%	$90,911	$2,477	$372	$93,016

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $7.4 million, $14.1 million, and $3.7 million in 2020, 2019, and 2018, respectively.

Contractual Maturities of Investment Securities

(IN THOUSANDS) AS OF DECEMBER 31, 2020	Amortized Cost
Less than one year	**$29**
One to five years	**4,343**
Five to ten years	**141,464**
More than ten years	**310,238**
Total	**$456,074**

A summary of investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows:

	Less than 12 months		Greater than 12 months	
(IN THOUSANDS) AS OF DECEMBER 31, 2020	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	**$7,355**	**$17**	**$4,207**	**$82**
ABS	**—**	**—**	**—**	**—**
Total	**$7,355**	**$17**	**$4,207**	**$82**

	Less than 12 months		Greater than 12 months	
AS OF DECEMBER 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$5,863	$159	$36,668	$340
ABS	95,690	439	8,958	21
Total	$101,553	$598	$45,626	$361

	Less than 12 months		Greater than 12 months	
AS OF DECEMBER 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
MBS	$4,389	$8	$34,796	$363
ABS	290	1	101	—
Total	$4,679	$9	$34,897	$363

Unrealized losses associated with investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by the U.S. government. However, the premiums paid to purchase the investment are not guaranteed and are amortized over the weighted average maturity of each loan as a reduction of interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee. At December 31, 2020, the majority of the $99 thousand unrealized loss represents unamortized premium.

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NOTE PAYABLE TO AGRIBANK

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

Note Payable Information

(DOLLARS IN THOUSANDS) AS OF DECEMBER 31	2020	2019	2018
Line of credit	**$24,000,000**	$24,000,000	$23,200,000
Outstanding principal under the line of credit	**20,738,979**	19,634,081	18,294,059
Interest rate	**1.6%**	2.6%	2.7%

Our note payable is scheduled to mature on April 30, 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.

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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 one thousand dollars, whichever is less. The stock purchase requirement for obtaining a lease is one share of Class D common stock for those eligible to hold such stock or one Class B participation certificate for those not eligible to hold such stock. In addition, the purchase of one Class B participation certificate is required of all customers who purchase financial services and are not a stockholder. 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 or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. 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	**19.6%**	20.8%	20.9%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**19.6%**	20.8%	20.9%	6.0%	2.5%	8.5%
Total capital ratio	**20.0%**	21.2%	21.4%	8.0%	2.5%	10.5%
Permanent capital ratio	**19.7%**	20.9%	21.0%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**18.5%**	19.1%	19.2%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.4%**	19.3%	19.3%	1.5%	N/A	1.5%

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

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

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

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

- Unallocated retained earnings and equivalents leverage ratio is unallocated retained earnings as regulatorily prescribed, paid-in capital, allocated surplus not subject to retirement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions subject to tier 1 capital.

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

DESCRIPTION OF EQUITIES

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

	Number of Shares		
AS OF DECEMBER 31	2020	2019	2018
Class D common stock (at-risk)	**13,128,093**	12,593,938	13,136,628
Class B participation certificates (at-risk)	**2,303,291**	2,364,316	2,515,352

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

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

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2020, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

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

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

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 $200.0 million, $186.6 million, and $146.0 million at December 31, 2020, 2019, and 2018, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

At the December 2020 Board of Directors' Meeting, the Board passed a Patronage Obligating Resolution that outlines the intent of the Association to refund patronage-sourced net earnings for the calendar year 2021 to eligible patrons of the Association. 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.

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INCOME TAXES

PROVISION FOR INCOME TAXES

Provision for Income Taxes

(DOLLARS IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Current:			
Federal	**$18,612**	$11,737	$17,432
State	**1,230**	974	1,425
Total current	**$19,842**	$12,711	$18,857
Deferred:			
Federal	**$(10,570)**	$(8,306)	$(8,725)
State	**(730)**	(609)	(774)
Total deferred	**(11,300)**	(8,915)	(9,499)
Provision for income taxes	**$8,542**	$3,796	$9,358
Effective tax rate	**2.1%**	0.9%	2.3%

Reconciliation of Taxes at Federal Statutory Rate to Provision for Income Taxes

(IN THOUSANDS) FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Federal tax at statutory rates	**$85,131**	$89,628	$84,621
State tax, net	**505**	488	507
Patronage distributions	**(1,821)**	(4,135)	(2,554)
Effect of non-taxable entity (FLCA)	**(77,350)**	(80,046)	(77,069)
Other	**2,077**	(2,139)	3,853
Provision for income taxes	**$8,542**	$3,796	$9,358

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) AS OF DECEMBER 31	2020	2019	2018
Allowance for loan losses	**$7,543**	$8,312	$9,800
Postretirement benefit accrual	**110**	119	129
Previously taxed nonaccrual interest	**2,190**	1,854	1,772
Accrued incentive	**3,225**	2,702	1,675
Leasing related, net	**(13,843)**	(25,585)	(35,685)
AgriBank 2002 allocated stock	**(1,783)**	(1,789)	(1,805)
Accrued pension asset	**(4,239)**	(3,797)	(2,785)
Other assets	**123**	210	10
Deferred tax liabilities, net	**$(6,674)**	$(17,974)	$(26,889)
Gross deferred tax assets	**$13,191**	$13,197	$13,386
Gross deferred tax liabilities	**$(19,865)**	$(31,171)	$(40,275)

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

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $188.8 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $4.1 billion as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no 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.

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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) 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	**7,688**	6,638	9,994
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**16,201**	16,379	17,216

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 $16.5 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) AS OF DECEMBER 31	2020	2019	2018
Our unfunded liability	**$1,593**	$1,784	$1,833

FOR THE YEAR ENDED DECEMBER 31	2020	2019	2018
Our allocated share of plan expenses	**$181**	$191	$213
Our cash contributions	**331**	331	331

The nonqualified plan is funded as the benefits are paid; therefore, there are no assets in the plan and the unfunded liability is equal to the projected benefit obligation. The amount of the pension benefits funding status is subject to many variables including interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded and we make annual contributions to fund benefits paid to our retirees covered by the plan. Our cash contributions are equal to the benefits paid. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

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

DEFINED CONTRIBUTION PLANS

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

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

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $10.7 million, $8.7 million, and $6.9 million in 2020, 2019, and 2018, respectively. These expenses were equal to our cash contributions for each year.

Additionally, we participate in a District-wide Pre-409A Frozen Nonqualified Deferred Compensation Plan. This plan serves the same purpose as the Nonqualified Deferred Compensation Plan. However, the plan was frozen effective January 1, 2007. As such, no additional participants are eligible to enter the plan and no additional employer contributions will be made to the plan.

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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) AS OF DECEMBER 31	2020	2019	2018
Total related party loans	**$16,439**	$16,892	$16,386
FOR THE YEAR ENDED DECEMBER 31	**2020**	**2019**	**2018**
Advances to related parties	**$5,809**	$9,370	$5,804
Repayments by related parties	**4,902**	7,068	6,798

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

As discussed in Note 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 $141.5 million, $114.5 million, and $105.7 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 $2.7 million, $313 thousand, and $397 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 certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, tax reporting, and insurance services from AgriBank. These services are now offered by SunStream. We also purchase human resource, benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). SunStream and Foundations are both System service corporations within the AgriBank District. In addition to the services we purchase from AgriBank, SunStream, and Foundations we also hold an investment in each of these institutions.

Additional Related Party Information

(IN THOUSANDS) AS OF DECEMBER 31	2020	2019	2018
Investment in AgriBank	**$690,787**	$517,435	$442,516
Investment in AgDirect, LLP	**41,871**	34,483	32,210
Investment in SunStream	**5,625**	—	—
Investment in Foundations	**113**	113	113
FOR THE YEAR ENDED DECEMBER 31	**2020**	**2019**	**2018**
AgriBank District purchased services	**$6,475**	$5,684	$5,458

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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. Commercial letters of credit are agreements to pay a beneficiary under specific conditions. At December 31, 2020, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $4.7 billion. Additionally, we had $37.6 million of issued standby letters of credit as of December 31, 2020.

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

We and other Farm Credit Institutions are among the limited partners for Rural Business Investment Companies (RBICs). As of December 31, 2020, our total commitment is $67.5 million of which $37.1 million is unfunded, with varying commitment end dates through December 2030. Certain commitments may have an option to extend under certain circumstances.

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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			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	**$—**	**$—**	**$6,906**	**$6,906**
Other property owned	**—**	**—**	**1,574**	**1,574**

AS OF DECEMBER 31, 2019	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	$—	$—	$13,458	$13,458
Other property owned	—	—	3,725	3,725

AS OF DECEMBER 31, 2018	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Impaired loans	$—	$—	$11,592	$11,592
Other property owned	—	—	10,686	10,686

VALUATION TECHNIQUES

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

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

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SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 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 (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

There are 82 office buildings located throughout our territory originating and servicing loans and leases. There are 80 retail office locations and 2 Louisville office locations. We own 80 buildings and lease 2 buildings. The owned facilities have net book values ranging between $68 thousand and $44.9 million. During 2020, one building was sold and land was purchased in Norwalk and Alliance, Ohio and Scottsburg, Indiana. Renovations were completed on offices in Columbia City, Indiana; Cookeville, Tennessee; Maysville, Kentucky; and Circleville and Wooster, Ohio. Additionally, the Louisville office facility, located at 1601 UPS Drive, was remodeled.

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	17.0%	16.8%	15.9%	15.5%
Total surplus ratio	16.6%	16.3%	15.4%	15.0%
Core surplus ratio	16.6%	16.3%	15.4%	15.0%

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:

- The **Audit Committee** oversees financial reporting, adequacy of our internal control systems, the scope of our internal audit program, independence of the outside auditors, processes for monitoring compliance with applicable laws and regulations related to preparation of the quarterly and annual reports, and the code of ethics. The Audit Committee also oversees the adequacy of management's action with respect to recommendations arising from auditing activities.
- The **Governance Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies, oversees the Association's annual elections, manages the Board annual self-assessment, and administers, in conjunction with the Board and management, a planning process focused upon securing the future of rural communities and agriculture.
- The **Human Resources Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.
- The **Risk Management Committee** oversees the integration of risk management activities throughout our organization. Committee members review ongoing risk assessments of current and emerging risks to ensure adequate planning and resources are directed at managing the identified risks. The Committee also establishes and promotes an effective risk culture throughout our organization.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS (UNAUDITED)

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

Name	Term	Principal occupation and other business affiliations
Andrew Wilson Chair Service Began: 10/2007	2019–2023	**Principal Occupation:** Self-employed farmer (corn, soybeans, wheat, hay, cattle, and hogs)
John L. Kuegel, Jr. Vice Chair Service Began: 10/2012	2020–2024	**Principal Occupation:** Self-employed farmer (dairy, corn, soybeans, wheat, hay, and alfalfa) **Other Affiliations:** Director, the Daviess County Farm Bureau Board (agriculture) Director, Kentucky Dairy Development Council (agriculture) Director, AgriBank District Farm Credit Council, a trade association representing the AgriBank District
Dale B. Tucker Secretary Service Began: 10/2013	2017–2021	**Principal Occupation:** Self-employed farmer (hay, timber, and cattle) **Other Affiliations:** Greene County Commissioner (local government)
David A. Bates, III Service Began: 01/1988	2017–2021	**Principal Occupation:** Self-employed farmer (beef, corn, soybeans, wheat, hay, barley, and alfalfa) **Other Affiliations:** Director, Bullitt County Farm Bureau (agriculture)
Steven R. Bush Outside Director Service Began: 04/2017	2017–2025	**Principal Occupation:** Business Development Executive, 323 Staffing Solutions; former VP; Sales and Marketing, My Property Support, LLC; former CFO, Whitestone Feeds, LLC; former Administrative Pastor, Real life Christian Church; former Executive Pastor, Family Christian Center
Todd A. Clark Service Began: 06/2019	2019–2022	**Principal Occupation:** Self-employed farmer (beef, poultry, sheep, hay, tobacco, hemp); Director, Marksbury Farm Market (meat processing and procurement) **Other Affiliations:** Director, Fayette County Farm Bureau Director, Kentucky Forage and Grassland Council Director, Kentucky Agricultural Water Quality Authority Director, Kentucky Farm Bureau Water Management Working Group
Dwain Cottingham Service Began: 10/2015	2019–2023	**Principal Occupation:** Self-employed farmer (cash grains) **Other Affiliations:** Director, Warren County Sheriff's Merit Board Warren County Community Foundation Finance Committee (philanthropic)
Lowell D. Hill Service Began: 10/2014	2018–2022	**Principal Occupation:** Self-employed farmer (grain) **Other Affiliations:** Director, AgriBank District Farm Credit Council, a trade association representing the AgriBank District
Laura Knoth Outside Director Service Began: 04/2019	2019–2023	**Principal Occupation:** Executive Director for Kentucky Corn Growers and Kentucky Small Grain Growers Associations, Self-employed farmer (beef cattle and hay) **Other Affiliations:** Director, Commonwealth Agri-Energy Corporation (ethanol)
Jason Moore Service Began: 06/2020	2020–2024	**Principal Occupation:** Self-employed farmer (corn, wheat, soybeans, registered and commercial Angus cattle, freezer beef, hay, custom harvest); Facility Manager, Nutrien Ag Solutions **Other Affiliations:** Vice President, Henry County Young Farmers and Rancers
Brandon Robbins Service Began: 10/2011	2019–2023	**Principal Occupation:** Business owner, part-time farmer (cow-calf operation) **Other Affiliations:** Owner, Mountain Farm International, LLC (equipment dealership) Director, AgriBank District Farm Credit Council, a trade association representing the AgriBank District

Name	Term	Principal occupation and other business affiliations
Rachael M. Vonderhaar Service Began: 10/2017	2017–2021	**Principal Occupation:** Full-time farmer (grain, cow/calf, ewe/lamb, bird seed); business owner **Other Affiliations:** Director, Ohio Small Grains Marketing Program (agriculture/education) Director, Reid Hospital Foundation Trustee — Preble County Habitat for Humanity Preble County Commissioner (local government)
Kaye Hurst Whitehead Service Began: 10/2016	2020–2024	**Principal Occupation:** Self-employed farmer (hay, corn, soybeans, wheat and hog operation) **Other Affiliations:** Director, Delaware County Pork Producers (agriculture) Chair, Delaware County Farm Bureau (agriculture)
Tony G. Wolfe Service Began: 10/2010	2018–2022	**Principal Occupation:** Self-employed farmer (corn, soybeans, wheat, and cattle) **Other Affiliations:** Director, AgriBank District Farm Credit Council, a trade association representing the AgriBank District Director, Farm Credit Council, a trade association representing the Farm Credit System

Directors are compensated in the form of an annual retainer paid monthly for time spent in preparing and attending board and committee meetings, the summer planning meeting and the AgriBank annual meeting. Beginning January 1, 2020, the monthly retainer rate was $4,375. In addition, directors were compensated at the daily rate of $500 for attendance at designated meetings not specified above but set out by Board policy. Directors were also reimbursed for reasonable expenses incurred in connection with attending such meetings.

The officers of the Board (Chair, Vice Chair, and Secretary) and the Chair of each of the Board's standing committees (Audit, Governance, Human Resources, and Risk Management) received an annual retainer paid monthly for the additional time commitments of their positions. The monthly amounts paid were as follows: Board Chair — $1,094; Audit Committee Chair — $875; Board Vice Chair — $656; and Secretary and other Board Committee Chairs — $438. Additionally, directors serving on standing committees receive $250 for participation in conference call meetings or half day committee meetings not held in conjunction with board meetings.

Additional transactions other than loans in the ordinary course of business involving directors and senior officers include AgDirect, LLP, the trade credit financing program we participate in which originates and refinances agriculture equipment loans through independent equipment dealers. Director Brandon Robbins owns an equipment dealership that participates in this program. All dealerships in the trade credit program are offered the same terms and conditions.

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

	Number of Days Served [1]				
Name	Board Meetings	Other Official Activities	Compensation Paid for Service on a Board Committee [2]	Name of Committee	Total Compensation Paid in 2020
Andrew Wilson	11.0	18.5	—		$70,875
John L. Kuegel, Jr.	11.0	4.0	—		62,375
Dale B. Tucker	11.0	8.0	—		61,750
David A. Bates, III	11.0	3.0	—		53,750
Donald Blankenship [3]	3.0	1.0	—		9,500
Steven R. Bush	11.0	6.5	$10,500	Audit Committee Chair	65,750
Todd A. Clark	11.0	5.5	—		55,250
Dwain Cottingham	11.0	4.5	5,250	Human Resource Committee Chair	61,000
Lowell D. Hill	11.0	9.5	5,250	Governance Committee Chair	62,750
Laura Knoth	11.0	5.5	—		54,250
Jason Moore [4]	7.0	6.0	—		31,625
Brandon Robbins	11.0	9.0	—		52,500
Rachael M. Vonderhaar	11.0	9.0	—		57,000
Kaye Hurst Whitehead	11.0	7.0	—		56,000
Tony G. Wolfe	11.0	16.0	—		56,000
					$810,375

[1] The number of board meeting days and per diem totals include travel time to and from meetings.
[2] All directors serve on board committees. The additional compensation paid was for serving as a committee chair or participating in meetings not held in conjunction with board meeting dates.
[3] Resignation, elected to the AgriBank Board of Directors in March 2020.
[4] Elected to the Board of Directors in June 2020.

SENIOR OFFICERS

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

Name	Position	Business experience and employment during past five years
William L. Johnson	President and Chief Executive Officer	President and Chief Executive Officer of Farm Credit Mid-America from March 2011 to present
Vince Bailey	Executive Vice President — Chief Credit Officer	Vice President — Credit Agribusiness of Farm Credit Mid-America from January 2016 through April 2017; Senior Vice President — Ag Underwriting from May 2017 through January 2020; Executive Vice President — Chief Credit Officer from February 2020 to present
Mark Hanna	Executive Vice President — Chief Risk Officer	Director of Risk Analytics for John Deere Financial until February 2020; Executive Vice President — Chief Risk Officer of Farm Credit Mid-America from March 2020 to present
Greg Hoffman	Executive Vice President — General Counsel	Managing Counsel — GE Appliances until July 2018; Senior Vice President — General Counsel for Farm Credit Mid-America July 2018 to February 2020; Executive Vice President — General Counsel from March 2020 to present
Keith Lane	Executive Vice President — Chief Lending Officer	Senior Vice President — Agribusiness from November 2011 through May 2017; Executive Vice President — Specialty Lending from May 2017 through January 2018; Executive Vice President — Chief Lending Officer from January 2018 to present
Heather Vidourek	Executive Vice President — Human Capital	Senior Vice President — Human Capital from June 2012 to February 2020; Executive Vice President — Human Capital from March 2020 to present
Daniel Wagner	Executive Vice President — Chief Operating Officer	Senior Vice President — Chief Information Officer of Farm Credit Mid-America from June 2012 through April 2017; Executive Vice President — Chief Financial and Information Officer May 2017 to July 2018; Executive Vice President — Chief Operating Officer August 2018 to present
Steve Zagar	Senior Vice President — Chief Financial Officer	Vice President Accounting Operations for Farm Credit Mid-America from June 2013 to July 2018; Senior Vice President — Chief Financial Officer from August 2018 to present

William L. Johnson is a director of SunStream Business Services (System service corporation), the University of Evansville (Board of Trustees — education), and AgriNovis Indiana (agriculture).

Heather Vidourek is a trustee of Farm Credit Foundations (employee benefits).

Daniel Wagner is a board member for Farm Credit Foundations (employee benefits).

Steve Zagar is a board member and current secretary of Farm Credit Employees Federal Credit Union.

SENIOR OFFICER COMPENSATION

Compensation Overview: The CEO and senior officers compensation program's design and governance follows prudent risk management standards, while providing total compensation that promotes the Association's mission and business strategy to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. The Association's compensation philosophy aims to provide total cash compensation that is competitive within the relevant market in order to recruit, reward and retain team members to meet the Association's objectives, while remaining aligned with the best interests of cooperative shareholders. The senior officer compensation program supports our risk management goals through its balance of the following: (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, and (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved.

Elements of Compensation: 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: Base salaries for all team members, including the CEO and senior officers, are determined by the position and responsibilities, performance, and competitive market compensation data. The CEO's base salary increase is determined by combining an individual performance rating established by the Board of Directors and the Association's performance. Senior officer base salary increases are determined by each officer's individual performance rating. CEO and senior officer base salary programs are annually reviewed and approved by the Board of Directors.

Short-term Incentives: The Board of Directors approves the short-term incentive program each year and eligible team members, including the CEO and senior officers, participate in the program. The 2020 program included team and Association performance measures based on financial and business results, Association initiatives, and credit performance. These measures include asset growth, return on assets, crop insurance growth, and credit administration. Association-level measures may be updated periodically and are approved by the Board of Directors and are consistent with the Association's business plan for the corresponding year. Team measures align to the Association and also include measures specific to each business division. Payouts are earned only when specific levels of performance are achieved, and are paid out within 75 days of the end of the plan year (the plan year is the calendar year). The 2021 short-term program will be similar to the 2020 program.

Long-term Incentives: We have a long-term incentive program, which aligns the CEO and senior officers to the Association's long-term business objectives, while providing the opportunity for a competitive market-based total compensation package. The Board of Directors set independent three-year performance objectives at the beginning of each plan year, including operating efficiency, credit quality, earning asset growth, and a discretionary component. In addition, the Board of Directors, at its sole discretion, may increase or decrease the amount of the incentive calculated.

The plan is a rolling three-year plan, which pays out during the first quarter after the third year. The Board of Directors must approve all long-term incentive payouts. Individuals becoming eligible for a plan after commencement of the plan (e.g., new hires) will receive a pro-rata long-term incentive based on months of service in an eligible position as long as the individual became eligible prior to January 1 of the last year in the plan. The Human Resources Committee of the Board of Directors will administer the plan as it relates to the CEO and delegate the administration as it relates to other participants to the CEO and human resources function. In addition, the CEO, at his sole discretion, may increase or decrease the amount of the incentive calculated and paid to a qualified plan participant based on market compensation and individual contributions and performance, not exceeding the Board approved aggregate senior officer pool.

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[1]	Deferred/ Perquisites	Change in Pension Value	Long-Term Incentive[1]	Other	Total
William L. Johnson, CEO	**2020**	**$745**	**$469**	**$17**	**$273**	**$469**	**$66**	**$2,039**
William L. Johnson, CEO	2019	718	523	15	278	372	52	1,958
William L. Johnson, CEO	2018	692	402	13	220	385	50	1,762
Aggregate Number of Senior Officers, excluding CEO								
Eight[2]	**2020**	**$2,023**	**$999**	**$37**	**$2,690**	**$735**	**$455**	**$6,939**
Seven[3]	2019	1,822	925	22	1,081	545	249	4,644
Seven	2018	1,747	808	25	(82)	602	225	3,325

[1] For 2018, a Long-Term Incentive paid for one Officer (for the 2015 Long-Term Plan) was reclassed from the "Bonus" category to the "Long-Term Incentive" category.
[2] Includes a full year of compensation for an individual that became a senior officer during February 2020 and compensation for another individual that joined the Association as a senior officer in March 2020. Also includes compensation for an individual that retired in January 2020.
[3] Includes one session officer who left in April 2019.

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

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.

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

- Employer match on defined contribution plans available to all employees.
- Employer match on District-wide Nonqualified Deferred Compensation Plan available to certain officers.
- Employer match on long-term incentive program.
- Amounts related to one-time payout of unused vacation hours offered to all employees during 2020.
- Amount related to a service award paid to a retiring officer and a relocation reimbursement paid to a new officer in 2020.
- Amounts related to vacation payouts to former senior officers in 2020 and 2019.
- Amount related to a sign-on bonus for a new officer in 2018.

No tax reimbursements are made to the CEO and senior officers. The "Deferred/Perquisites" primarily includes group-term life insurance premiums and long-term disability premiums.

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
William L. Johnson, CEO	AgriBank District Retirement Plan	**38.21**	**$973**	**$—**
	AgriBank District Pension Restoration Plan	**38.21**	**948**	**—**
Aggregate Number of Senior Officers, excluding CEO				
Four	AgriBank District Retirement Plan	**36.60**	**$11,367**	**$211**

The above table includes a senior officer who retired during the year. 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:

P.O. Box 34390
Louisville, KY 40232
(800) 444-FARM
www.e-farmcredit.com

The total directors' travel, subsistence, and other related expenses were $123 thousand, $253 thousand, and $305 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 $126 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel. In addition, we incurred $8 thousand for tax services.

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 (UNAUDITED)

The Board of Directors has approved a policy to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

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

DEMOGRAPHICS

We have used the 2017 United States Department of Agriculture (USDA) Ag Census as our source of demographic data for Young, Beginning and Small Farmers (YBS). There are 280,403 farms in the four state territory of Indiana, Kentucky, Ohio and Tennessee. Of that number, there are 27,032 young farmers (or 9.6%); 70,082 beginning farmers (or 25.0%), and 257,078 small farmers (or 91.7%). The census data is as of 2017 whereas our portfolio data is based on the number of current YBS customers and/or loans in the current year.

MISSION STATEMENT

Our mission for the Young, Beginning and Small Farmer Program is to provide sound and constructive credit to meet the needs of the next generation of young, beginning and small farmers by offering standard or special programs targeted to this group.

TARGETS AND GOALS

TOTAL LOAN PORTFOLIO

The goal of the young farmer program is to maintain the percentage that young farmers represent of the total farm members in our portfolio at 25% or higher; the goal of the beginning farmer program is to maintain the percentage that beginning farmers represent of the total farm members in our portfolio at 45% or higher; the goal of the small farmer program is to maintain the percentage that small farmers represent of the total farm members in our portfolio at 70% or higher.

In 2020, there were 71,421 agriculture members in our portfolio. Of that number, there were 20,495 young farmers, 40,830 beginning farmers, and 58,133 small farmers. Farm members could qualify in more than one category. These numbers surpass the goals as follows:

	% of Member Base	
	Actual	Goal
Young	28.7%	25.0%
Beginning	57.2%	45.0%
Small	81.4%	70.0%

NEW LOAN PORTFOLIO

The Association has also set a goal that 20% or more of new loans or leases will be closed to young farm customers, 30% or more new loans or leases will be closed to beginning farmers, and 60% or more of new loans or leases will be closed to small farm customers. These numbers surpass the goals as follows:

	% of Loans	
	Actual	Goal
Young	20.0%	20.0%
Beginning	35.0%	30.0%
Small	62.0%	60.0%

SAFETY AND SOUNDNESS OF THE PROGRAM

It is the responsibility of the President and Chief Executive Officer or his designee for development of appropriate standards and procedures to support implementation of this policy and special programs approved by the Board of Directors. The Board of Directors reviews the ongoing adequacy of this policy at least annually and monitors progress on a quarterly basis.

Management has developed a young, beginning and small farmer program that provides sound and constructive credit through standard or special programs targeted to this group.

YBS PROGRAM FEATURES

We implemented a young, beginning and small farmer and rancher program "Growing Forward" with four components, all of which were continued in 2020.

- Special underwriting program for young and beginning farmers. In 2020, Farm Credit Mid-America provided special underwriting standards on 484 loans representing $104 million in loan volume.
- Farm Service Agency (FSA) loan guarantee reimbursement of 50% for young or beginning farmers. In 2020, the Association waived its origination fees and reimbursed members 50% of their FSA guarantee fees on over 80 loans representing nearly $306 thousand in reimbursed FSA fees.

- Over 100 YBS farming operations attended Farm Credit Mid-America's YBS education seminar, "Know to Grow," which works with members to understand and make sound management decisions based upon their own financial information.
- Reimbursement of up to $500 dollars (one time only) to young or beginning members who attend; business, production, financial management, or agricultural leadership development programs that will help them in their farm business.

COOPERATIVE CITIZENSHIP

In 2020, our focus brought additional knowledge to the customer and those pursuing careers in agriculture. We supported young people by providing almost $300 thousand in scholarships to students from Indiana, Ohio, Kentucky, and Tennessee enrolled in college programs related to agricultural careers. The Farm Credit Mid-America Board has a cooperative citizenship philosophy that contributed an additional $1.7 million in programs and gifts that benefitted rural communities, young people, commodity groups and other agricultural organizations by supporting the next generation of agriculture. Employees also participated in and supported organizations like FFA, 4-H and Young Farmer groups by conducting training and education sessions to help the next generation of farmers.

OUTREACH AND EDUCATION

We continued to partner with many organizations to reach a variety of customers in 2020. We continued our large sponsorship with each of our four state's Farm Bureau Young Farmers and Ranchers programs. We provided educational opportunities and worked closely with the universities in our territory. Our team continues to be engaged with state level groups such as the Organic Association of Kentucky, Richland County Grow-Op in Ohio, KY FFA Foundation Board, and Tennessee's Center for Profitable Agriculture and many more. The Growing Forward team provided direct educational and financial initiatives to local industry organizations such as; Kentucky Beef Cattleman's Association, Tennessee Council of Co-ops, Indiana Corn and Soybean organizations, Ohio State University Extension services, Purdue University Extensions programs such as Annie's Project , University of Kentucky extension services and State Departments of Agriculture. Every year we participate in conferences with our YBS customers in Washington D.C., both in-person and virtually. Additionally, on the national level, we partnered with other associations from across the Farm Credit System by co-hosting an annual YBS idea sharing conference with the Farm Credit Council and also being a member of the AgriBank non-traditional lending committee.

NOTICE TO CUSTOMERS CONCERNING INVESTMENTS

This notice contains information about your stock investment in Farm Credit Mid-America, ACA (the Association). Please read it carefully and make sure you understand both the benefits and risks of an investment in the Association.

Association Capitalization Bylaws (a copy of which is included as part of this publication) require an investment in stock or participation certificates in the amount of 2% of the loan amount or $1,000, whichever is less, when obtaining a loan from either of its wholly owned subsidiaries, the Farm Credit Mid-America, FLCA (FLCA) or the Farm Credit Mid-America, PCA (PCA). The Association's Board of Directors (Board) has the discretion to apply the stock requirement on a per-customer basis or a per-loan basis. Currently, the stock requirement is on a per-customer basis.

The Association also sells stock or "Participation Certificates" (Certificates) to any eligible customer of the FLCA or PCA as a condition of obtaining a lease and as a condition for purchasing related services. The amount of stock or participation certificates required may range from one share to no more than the requirement for obtaining a loan, at the discretion of the Board. At this time, the Board has decided to require one share for both leasing and related services.

The voting stock issued by the Association is called "Class D Stock" (Stock) and is issued only to farmers, ranchers and producers or harvesters of aquatic products. Other persons who are eligible to borrow or lease from or purchase financially related services with the FLCA or PCA, but who are not eligible to own Stock, must purchase Certificates, which are issued on essentially the same terms as Stock except as described below.

Stock and Certificates issued as a condition of doing business with the Association (which may include stock issued in connection with loan renewals, assumptions, refinancing, etc.) are an investment in the Association that is at risk and not a compensating balance.

HOW STOCK AND CERTIFICATES ARE PURCHASED

Shares of Stock (and units of Certificates) are sold for their par value (or face amount) of $5 each and can be paid for either with cash or with the proceeds of a loan.

When the purchase price is borrowed, the amount of the FLCA and/or PCA loan includes the cost of the Stock or Certificates and interest is charged on the entire loan. The portion of the FLCA or PCA loan proceeds attributable to the purchase price of the Stock or Certificates is withheld and applied to the purchase price of the Stock or Certificates. The total amount of the loan, including the portion used to pay for the Stock or Certificates, is a legally enforceable obligation that must be repaid in full. The Association does not issue physical certificates for Stock or Certificates. Instead, the ownership of Stock or Certificates is evidenced by entries recorded on the consolidated books of the Association as reflected in periodic account statements sent to each customer.

CERTAIN IMPORTANT CHARACTERISTICS OF STOCK AND CERTIFICATES

The principal difference between Stock and Certificates is that the Stock entitles its holder to one vote (regardless of how many shares are owned) with respect to the election of Association directors and other matters on which stockholders are entitled to vote. Holders of Certificates have no voting rights. In all other respects, Stock and Certificates have substantially the same rights and restrictions.

Association bylaws provide that dividends may be paid on Stock or Certificates with the approval of the Board. Dividends may not be paid if, after or due to such action, the permanent capital of the Association would thereafter fail to meet the minimum capital adequacy standards established by the FCA.

The Board may adopt a resolution in accordance with the Farm Credit Act (the Act) and the Farm Credit Administration Regulations (Regulations), so as to obligate the Association to distribute as patronage, its available "Patronage-Sourced Net Earnings" for such fiscal year as defined in the Patronage Resolution. Members, Equity holders and other parties with or for whom the Association conducts Patronage Business (Patrons) shall have the right to share in the patronage distribution on the basis of the quantity or value of their respective Patronage Business. Patronage may not be paid if, after or due to such action, the permanent capital of the Association would thereafter fail to meet the minimum capital adequacy standards established by the FCA.

The FLCA or PCA takes a lien on the Stock or Certificates held by a customer as additional security for the customer's loan. If the customer defaults, the value of the customer's investment (not to exceed par value, or face amount) may be applied against the balance due on the loan. If the customer's Stock or Certificates are transferred, they are still subject to this lien. In any event, Stock and Certificates are transferable only to persons eligible to purchase such equities.

Stock and Certificates do not appreciate in value. Any retirement or conversion will be at their original issue price or, if less, their book value. The possibility that this investment may result in a loss is discussed below under the heading "Impairment."

RETIREMENT OF STOCK AND CERTIFICATES

Under Association bylaws, Stock and Certificates are retired only at the discretion of the Board. Stock is retired at book value not to exceed par value, while Certificates are retired at book value not to exceed face amount. Book value will be determined in accordance with generally accepted accounting principles (GAAP).

Under Federal Law, there is no automatic right to have Stock or Certificates retired upon repayment of the customer's loan or when the customer ceases to conduct other business with the FLCA and/or PCA.

NOTICE TO CUSTOMERS CONCERNING INVESTMENTS (CONT)

Under the Association's existing Equity Policy, equity is on a customer basis and is required on existing fixed, adjustable or variable rate loans originated after July 1, 1995, in an amount not less than 2% or $1,000, whichever is less, according to the customer's total loan balances (when the customer is the same on each loan).

Equity of one share is required on a lease or for a non-customer to qualify for related services.

The Equity Policy may be amended by the Board at any time at their sole discretion and in accordance with the Act, Regulations and Bylaws.

Effective January 1, 2003, the Board's policy permits the retirement of customer equity only if the Association's permanent capital percentage is above the Board's stated minimum, established annually. The Board allows stock to be retired by management provided that retirements are in accordance with the Association's capital plan; the Association's permanent capital ratio will be in excess of 14% after any such retirements; the Association meets and maintains all applicable minimum surplus and collateral standards; and the aggregate amount of stock purchases and retirements are reported to the Board of Directors monthly.

Except for loans in default, customer equity may be retired under any of the following conditions:

- the customer's indebtedness for a loan or a lease is totally paid off;
- a non-borrower is no longer a purchaser of related services;
- the customer's loan is sold into the secondary market without recourse; or
- management approves a partial retirement when a customer's loan is in good standing and due to paydown, requests excess stock to be retired.

The retirement policy may be suspended or modified at any time at the discretion of the Board in order to protect the financial condition of the Association.

The Association is prohibited from retiring Stock or Certificates if such retirement results in the Association's failure to satisfy the minimum capital adequacy standards established by the Farm Credit Administration.

Of course, even though you may be given the opportunity to have your stock retired, you are not required to retire your Stock or Certificates after repaying your FLCA and/or PCA loan and may continue to hold this investment. However, if you do not borrow from the FLCA and/or PCA during the following two years, your Class D Stock will be converted into non-voting Class C Stock.

IMPAIRMENT

Your ownership of Stock or Certificates in the Association is an investment and is subject to certain risks that could result in a partial or complete loss of investment. You are responsible for repayment of the entire amount of the FLCA and/or PCA loan, including the amount borrowed to pay for your Stock or Certificates, regardless of the value of your Stock or Certificates.

These risks include:

- loan losses experienced by the FLCA and/or PCA as a result of inadequate evaluation of credit risks or adverse trends in agriculture, such as loss of international markets, over-production, weather conditions or disease;
- increases in the amount of non-accrual FLCA and/or PCA loans and properties acquired from borrowers that reduce revenues; and
- impairment of AgriBank (Bank) stock owned by the Association due to losses in other associations within the district, loan losses and operating expenses of the Bank and the Bank's joint and several liabilities on Systemwide debt securities issues by other Banks in the national Farm Credit System.

As a result of these or any other risks, the capital of the Association could become impaired. Impairment means that the book value of the Stock or Certificates has declined below par value or face value, which is $5 per share or unit. (For example, if the Association were to suffer loan losses which exceeded its other income, its bad debt reserve and its surplus accounts, the Stock and Certificates could have a book value less than $5 and thus would be impaired.) So long as the capital of the Association is impaired, its customers would receive less than they had paid for their stock upon retirement. If the Association were to be liquidated at the time when its capital is impaired, holders of Stock or Certificates would receive less than the par value or face amount of their investment and may suffer a total loss of their investment in the Association. However, in any event, customers would remain liable for the full amount of their loan from the FLCA and/or PCA, including the portion used to pay for the purchase of Stock or Certificates.

Of course, the Association will take all feasible action to prevent its capital from becoming impaired. The FLCA and PCA maintain loss reserves (and surplus accounts) to protect against this possibility.

The Act provides a mechanism for providing financial assistance to distressed Farm Credit System entities. This mechanism is described in the Association's 2020 Annual Report. However, the assistance mechanisms in the Act provide no assurance to customers that Stock and Certificates will be protected. Therefore members are advised to review the financial statements of the Association and of the Bank and other available information about the Farm Credit System. Copies of the Association and the Bank's Annual and Interim Reports to Investors are available from the Association upon request.

ASSOCIATION PERMANENT CAPITAL STANDARDS

The FCA Regulations prohibit patronage distributions to the extent they would reduce the Association's permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, effective January 1, 2017, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts. We do not foresee any events that would result in this prohibition in 2020 .

ARTICLE VIII — CAPITALIZATION

800 AUTHORIZED SHARES

The Association is authorized to issue:

a. fifty million (50,000,000) shares of Class C Common Stock with a par value of $5 per share to be issued as provided in Section 810.3 of these Bylaws, provided an unlimited number of shares may be issued for purposes of Section 845.2 and such other purposes for which the Regulations do not require the Bylaws to state a number or value limit;
b. an unlimited number of shares of Class D Common Stock with a par value of $5 per share to be issued as provided in Sections 810.4 of these Bylaws;
c. an unlimited number of Class B Participation Certificates, with a face value of $5 per unit to be issued as provided in Section 810.6 of these Bylaws; and
d. such number of shares of such other classes of capital stock as may be provided for in an amendment or amendments to these Bylaws as adopted pursuant to Article XIV, provided, however, if the class being proposed in any amendment or amendments is for a class of preferred stock, such amendment or amendments shall be approved by a majority of the shares voting of each class of equities adversely affected by the preference, voting as a class, whether or not such classes are otherwise authorized to vote.
e. No fractional shares of any class of stock shall be issued or paid.

805 OWNERSHIP

Evidence of ownership of stock and participation certificates may be by book entry or in definitive form as prescribed by the Board.

A borrower's required investment in Association common stock/participation certificates (and the required conversion of such investment into a different class of equity) shall be determined by reference to the borrowing relationship with MidAm, PCA or MidAm, FLCA, as the case may be. Accordingly, all references to loans and outstanding loan balances in this Article shall refer to aggregate loans held or originated by Association, MidAm, PCA and MidAm, FLCA

810 ISSUE, RIGHTS, PREFERENCES AND LIMITATIONS OF CLASSES OF STOCK

810.1 RESERVED

810.2 RESERVED

810.3 CLASS C COMMON STOCK

a. Issue: This stock may be issued in accordance with the Act and Regulations:
   1 | In such amounts and to such persons as may be permitted under a plan adopted by the Board;
   2 | For allocated surplus distributions, dividend payments, and patronage distributions; and
   3 | In accordance with Section 845.2 of these Bylaws.
b. Voting Rights: Class C Common Stock shall have no voting rights.
c. Rights: Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends),
Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement),
Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.

810.4 CLASS D COMMON STOCK

a. Issue: Class D Common Stock may only be issued to borrowers who are farmers, ranchers or producers or harvesters of aquatic products and other requirements of such borrowers as specified in the Act and Regulations.
b. Voting Rights: Class D Common Stock shall have voting rights.
c. Rights: Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.
d. Condition to Borrowing:
   1 | Any borrower who is entitled to own Class D Common Stock shall acquire voting stock in the Association as a condition for obtaining a loan from the Association, MidAm, PCA or MidAm, FLCA. The amount of Class D Common Stock which a borrower shall be required to acquire shall be 2% of the loan amount or $1,000, whichever is less. The Board shall establish from time to time whether the stock requirement shall apply to each loan to a borrower or apply to a borrower's aggregate outstanding loan balance on all borrower's loans (as used in this section shall only include those loans, including the new loan, where the borrowers are the same on each loan).

2 | If the Association fails to meet the minimum permanent capital standards the Class D Common Stock shall be purchased from the Association.

3 | Loan origination fees may be charged as a condition of borrowing from the Association, MidAm, PCA or MidAm, FLCA as the Board from time to time may determine.

e Condition to Lease:
As a condition of obtaining a lease from Association, MidAm, PCA or MidAm, FLCA any lessee who is entitled to own Class D Common Stock shall be required to acquire Class D Common Stock in an amount as determined by the Board from time to time. The equity requirement shall be not less than one share or the minimum requirement as set out in the Act and Regulations, if any, and shall not exceed the equity requirement for obtaining a loan.

810.5 RESERVED

810.6 CLASS B PARTICIPATION CERTIFICATES

a Issue: Class B Participation Certificates may be issued in accordance with the Act and Regulations:

1 | To borrowers who are rural residents to capitalize their rural housing loans.

2 | To borrowers who are persons or organizations furnishing to farmers and ranchers farm- related services directly related to their agricultural production, to capitalize their loans.

3 | To other persons or organizations who are eligible to borrow or participate in loans from Association, MidAm, PCA or MidAm, FLCA but are not eligible to hold voting stock.

4 | For allocated surplus distributions, dividend payments, and patronage distributions.

5 | To any person who is not a stockholder but who is eligible to borrow from Association, MidAm, PCA or MidAm, FLCA for the purpose of qualifying such person for technical assistance, financially related services, and leasing services offered by Association, MidAm, PCA or MidAm, FLCA.

b Voting Rights: Class B Participation Certificates shall have no voting rights.

c Rights: Rights of a holder to dividends, to patronage refunds, to transfer, to retirement, upon loss and upon impairment shall be subject to the Act, Regulations and in accordance with provisions of Section 815 (Application of Earnings and Losses), Section 830 (Dividends), Section 835 (Patronage Refunds), Section 840 (Transfer), Section 845 (Conversion), Section 850 (Retirement), Section 855 (Impairment) and Section 860 (Liquidation) of these Bylaws.

d Fractional Units: No fractional units of Class B Participation Certificates shall be issued or paid.

e Condition to Borrowing:

1 | Any borrower who is entitled to own Class B Participation Certificates shall acquire Participation Certificates as a condition for obtaining a loan from Association, MidAm, PCA or MidAm, FLCA. The amount of Class B Participation Certificates which a borrower shall acquire shall be 2% of the loan amount or $1,000, whichever is less. The Board shall establish from time to time whether the certificate requirement shall apply to each loan to a borrower or apply to a borrower's aggregate outstanding loan balance on all borrower's loans (as used in this section shall only include those loans, including the new loan, where the borrowers are the same on each loan).

2 | If the Association fails to meet the minimum permanent capital standards, the Class B Participation Certificates shall be purchased from the Association.

3 | Loan origination fees may be charged as a condition of borrowing as the Board from time to time may determine.

f Condition to Lease or Purchase of Financially Related Services: As a condition of obtaining a lease or purchasing financially related services from Association, MidAm, PCA or MidAm, FLCA any lessee or purchaser of financially related services who is entitled to own Class B Participation Certificates shall be required to acquire Class B Participation Certificates in an amount as determined by the Board from time to time. The equity requirement shall be not less than one share or the minimum requirement as set out in the Act and Regulations, if any, and shall not exceed the equity requirement for obtaining a loan.

815 APPLICATION OF EARNINGS OR LOSSES

815.1 At the end of each fiscal year, the Association shall apply its earnings (including patronage allocations and refunds received from the FCB) for such fiscal year in the following order:

a to cover operating expenses, including additions to loan valuation reserves as provided by law;

b to restore the amount of any impairment of stock and participation certificates as prescribed in Section 855.2 of these Bylaws;

c to restore the amount of any impairment of allocated surplus;

d to restore the amount of any impairment of paid-in surplus;

e to create and maintain an unallocated surplus account as provided in Section 820 of these Bylaws;

f to pay dividends on stock and participation certificates of the Association if authorized pursuant to Section 830 of these Bylaws; and

g to make patronage distributions if authorized pursuant to Section 835 of these Bylaws.

815.2 In the event of a net loss for any fiscal year, after applying earnings for such fiscal year as provided in Section 815.1 above, such loss shall be absorbed by, first, charges to the unallocated surplus account; second, impairment of paid-in surplus; third, impairment of the allocated surplus account in the manner determined by the Board; fourth, impairment of Class D Common Stock, Class C Common Stock, and Class B Participation Certificates, concurrently; and fifth, impairment of any class of preferred stock issued and outstanding.

820 SURPLUS ACCOUNTS

The Association shall create and maintain an unallocated surplus account and may maintain an allocated surplus account. The minimum aggregate amount of these two accounts shall be prescribed by the Board. At the end of any fiscal year that the surplus accounts otherwise would be less than the minimum amount established in the capital adequacy requirements prescribed by the FCA, or such higher requirement established by the Board, the Association shall apply earnings for the year to the unallocated surplus account in such amounts as may be necessary to meet these requirements. Except as provided in Section 815, the unallocated surplus account may not be reduced below the minimum aggregate amount prescribed by the Board.

825.1 ALLOCATED SURPLUS ACCOUNTS

The Association may, subject to the Act and the Regulations, create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis in accordance with Section 835 of these Bylaws. Allocated surplus may be issued as either "qualified written notices of allocation" or "non-qualified written notices of allocation," or both, as those terms are defined under Section 1388 of the Code as follows:

a. All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the Board's sole discretion, in order of issuance by year as funds are available.
b. All allocations in the form of non-qualified written notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired at the Board's sole discretion.

Only those persons to which allocated surplus may be issued may own such allocated surplus. In the event of a net loss for any fiscal year, such allocated surplus account shall be subject to impairment as provided Section 815.2.

825.2 Association, MidAm, PCA and MidAm, FLCA shall have a first lien on all surplus account allocations owned by any borrower, and all distributions thereof, as additional collateral for such borrower's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be.

825.3 Subject to the Act and Regulations, when the debt of a borrower is in default or is in the process of final liquidation, the Association may, at the Board's sole discretion, retire at book value (not to exceed face value) any and all surplus account allocations owned by such borrower to be applied against the indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be.

825.4 Subject to the Act, Regulations, and any other restrictions, when all of the stock and participation certificates of the Association owned by a borrower are retired or otherwise disposed of, any surplus account allocations owned by such borrower may also be retired, upon request by the borrower and subject to the approval of the Board at its sole discretion, and the proceeds paid to the borrower. Alternatively, if the Board so directs, upon notice to the borrower such surplus account applications may be applied against any of the borrower's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be.

825.5 Subject to the Act and the Regulations, and provided minimum capital adequacy standards established in the Regulations (including subpart H of part 615 and part 628), and the capital requirements established by the Board are met, allocated surplus may be distributed at their book value not to exceed their stated value in Class C Common Stock of the Association or in cash. Any such distribution shall be at the sole discretion of the Board. The cash proceeds may be applied against the indebtedness of the borrower to the Association. In no event shall such distributions reduce the surplus account below the minimum amount prescribed by the Act and the Regulations. Distributions of less than the full amount of all allocations issued as of the same date shall be on a pro rata basis. If any part of a distribution in Class C Common Stock to one borrower is less than $5, such distribution may be held by the Association and accumulated with subsequent partial distributions to equal one whole share of Class C Common Stock.

825.6 All qualified notices of allocation shall satisfy the definition of a "qualified written notice of allocation" as defined in Section 1388 of the Code. All nonqualified notices of allocation shall satisfy the definition of a "nonqualified written notice of allocation" as also defined in Section 1388 of the Code.

825.7 A record of the holders of allocated surplus shall be kept and maintained by the Association. Allocations of "qualified" amounts will be maintained separately from allocations of "nonqualified" amounts. Such surplus accounts shall be transferable only to the Association or to an eligible Member or Equityholder of the Association in the manner established by the Board, and no transfer thereof shall be binding upon the Association unless so transferred on the books of the Association.

830 DIVIDENDS

830.1 In accordance with the Act and the Regulations, the Board may declare dividends on the common stock and participation certificates of the Association, as the Board may determine by resolution. A dividend may be declared only if at the time of the declaration thereof no class of stock shall be impaired. Dividends may not be paid if the action would result in failure of the Association to meet minimum capital adequacy requirements established by the FCA. Any dividend paid on common stock and participation certificates shall be paid on all classes of common stock and participation certificates on a per share basis and without preference between classes of common stock and participation certificates; provided, however, that such dividends shall not exceed 8% per share/unit per annum. No dividend shall be paid on common stock and participation certificates in any year with respect to which the Association is obligated to pay patronage as provided under Section 835. Any dividend on preferred stock, if authorized, shall not reduce net earnings from business done with or for patrons. Any such dividend shall be in addition to amounts otherwise payable to patrons under Section 835.

830.2 Dividends may be paid to holders of record on the effective date of the declaration, or such other record date established by the Board.

830.3 Dividends on stock and participation certificates may be paid in cash, Class C Common Stock, or partly in cash and partly in stock. If any part of such dividends payable in stock to one borrower are less than $5, the dividends may be distributed in cash or held by the Association and accumulated with subsequent dividends until the retained dividends equal $5, so that the dividends may be distributed as one whole share of Class C Common Stock.

830.4 If a borrower's loan is in default, any part of the dividend distribution to that borrower may, at the Board's sole discretion, be applied against the borrower's indebtedness to the Association and any subsidiary.

835 PATRONAGE REFUNDS

835.1 Prior to the beginning of any fiscal year, the Board may adopt a resolution in accordance with the Act and the Regulations, so as to obligate the Association to distribute as a patronage dividend, its available "Patronage-Sourced Net Earnings" for such fiscal year or for that year and subsequent fiscal years. Patronage-Sourced Net Earnings shall mean the net earnings of the Association and its Subsidiaries from business conducted on a patronage business ("Patronage Business" or "Patronage Transaction") as defined in the Patronage Resolution. Members, Equityholders, and other parties with or for whom the Association conducts Patronage Business ("Patrons") shall have the right to share in the patronage dividend on the basis of the quantity or value of their respective Patronage Business. Any outstanding Patronage Resolution that is not rescinded prior to the beginning of the period to which it relates shall become irrevocable and constitute a binding legal obligation of the Association with respect to such period. Each transaction qualifying as Patronage Business shall include as part of its terms, whether the same has been expressly referred to in said transaction or not, the provisions of this Article VIII of the Bylaws.

835.2 All patronage distributions shall be paid to Patrons in proportion to the amount or value of Patronage Business done by the Association and its Subsidiaries with or for each Patron, as determined by the Board in accordance with cooperative principles on an equitable and nondiscriminatory basis, and within the payment period prescribed by 26 U.S.C. 1382(d). A Patron who pays interest or otherwise contributes to the Association's net income, as applicable, during the period for which the patronage distribution is made shall be entitled to receive a pro-rata share of the patronage distribution regardless of whether the Patron continues to be a stockholder or borrower of the Association or its Subsidiaries on the date the declaration of the patronage distribution is made. In accordance with the Act and Regulations, the Board may establish, on a rational and equitable basis, separate patronage pools or allocation units for Patronage Business transactions of the same type or with similar characteristics. The Board shall determine the amounts and forms of patronage distributions from each pool on a rational and equitable basis.

835.3 Net earnings of any fiscal year shall be available for patronage distribution only after making the applications as required in (a) through (f) of Section 815, including the setting aside of a portion of the net earnings in the unallocated surplus account, as deemed prudent for sound capital accumulation. The Board in its resolution may establish a minimum level of available earnings and if the available earnings fall below this level no patronage distribution will be made. Earnings from transactions that do not constitute Patronage Business will be set aside and applied to unallocated surplus.

835.4 Patronage distributions may be in cash, Class C Common Stock, allocations of earnings retained in an allocated surplus account, or any one or more of such forms of distribution; provided, however, that the cash portion of any patronage distribution for any fiscal year which includes a qualified written notice of allocation shall not be less than the amount required to qualify such distribution as a deduction for Federal income tax purposes. Any part of a patronage distribution in Class C Common Stock to one borrower that is not a multiple of $5 may be distributed in cash or held by the Association for the borrower and included in a subsequent distribution.

In the event that the total patronage distribution to a Patron is less than the minimum amount or amounts as determined annually by the Board, prior to the end of the taxable year, such distribution may be retained by the Association, paid entirely in cash or applied to the Patron's indebtedness.

Any part of the patronage allocated to a borrower may, at the Board's sole discretion, be applied to such borrower's indebtedness to the Association and its Subsidiaries. If the debt of a borrower is in default, any part of the patronage distribution to that borrower may, at the Board's sole discretion, be applied against the borrower's indebtedness to the Association and its Subsidiaries.

835.5 Each person who hereafter applies for and is accepted to membership in this Association and each Member of this Association on the effective date of this bylaw who continues as a Member after such date, and each person who thereafter applies for and is issued stock of this Association shall by such act alone, consent that the amount of any distributions with respect to such holder's patronage which are made in written notices of allocation, as defined in 26 U.S.C. 1388 (i.e., patronage allocations of surplus account and patronage refunds paid in Class C Common Stock of the Association, and which are received by him or her from the Association), will be taken into account as income by such person at the stated dollar amounts in the manner provided in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received. The foregoing consent shall not apply to any written notice of allocation expressly designated as "nonqualified." Such holders also consent by such act alone, to take into account as income in the same manner the amount of any distributions with respect to patronage provided he or she receives written notice from the Association that such amount has been applied on his or her indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be.

835.6 The Association may obtain the written consent of each Patron that the amount of any distributions with respect to the Patron's patronage, which are made in written notices of allocations as defined in 26 U.S.C. 1388 (i.e., patronage allocations of surplus account, patronage refunds paid in Class C Common Stock, or distributions with respect to patronage that have been applied to the holder's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be, and for which the holder has received written notice), will be taken into account as income by the Patron at the stated dollar amounts in the manner provided for in 26 U.S.C. 1385(a) in the taxable year in which such written notices of allocation are received. The form of consent shall be prescribed by the Board, except that it shall be continuing in effect until revoked by the Patron, and it may be included as part of the loan application or other appropriate form signed by borrowers. Consent may also be obtained by use of a qualified check in the manner provided for in 26 U.S.C. 1388.

835.7 Where the Association arranges for the provision of credit and/or related services to its Patrons through the Subsidiaries, and such Patrons avail themselves of the arrangements made and maintained by the Association by borrowing or acquiring related services from the Subsidiaries, all net earnings or loss attributable to such provision of credit and/or related services shall be treated as net earnings or loss of the Association from business done with Patrons and all business done with the Subsidiaries shall be treated as business done with the Association.

840 TRANSFER

840.1 Stock and participation certificates may be transferred to persons or organizations eligible to receive or to hold such stock or participation certificates as provided in Section 810 of these Bylaws.

840.2 The Association shall be its own transfer agent in all matters relating to its stock and participation certificates.

845 CONVERSION

845.1 Each class of common stock and participation certificates may be converted into any other class of common stock or participation certificates for which the holder is eligible as provided in Section 810.

845.2 Class D Common Stock shall be converted into Class C Common Stock within two years after the holder thereof ceases to be a borrower from Association, MidAm, PCA or MidAm, FLCA.

850 RETIREMENT

850.1 CLASS C COMMON STOCK, CLASS D COMMON STOCK, AND CLASS B PARTICIPATION CERTIFICATES

Subject to the Act common stock and participation certificates may be retired at the sole discretion of the Board, provided minimum capital adequacy standards established in the Regulations (including subpart H of part 615 and part 628), and the capital requirements established by the Board, are met. Such retirements shall not be on a date certain or on the happening of an event such as repayment of a loan or pursuant to an automatic retirement or revolvement plan. All stock and participation certificates shall be retired at book value not to exceed par or face value.

850.2 RESERVED

850.3 RETIREMENT IN THE EVENT OF DEFAULT

Subject to the Act and Regulations, when the debt of a borrower is in default, the Association may, at the Board's sole discretion, order the retirement of any common stock or participation certificates held by the borrower at book value not to exceed par value or face value, and apply all or part of the proceeds thereof against the borrower's indebtedness to Association, MidAm, PCA or MidAm, FLCA, as the case may be.

855 IMPAIRMENT

855.1 Any losses which result in an impairment of the Association's capital shall be borne ratably by, first, each share of Class D Common Stock and Class C Common Stock, and each unit of Class B Participation Certificates outstanding; and second, each share of preferred stock outstanding (if any).

855.2 Impaired common stock and participation certificates shall be restored in the reverse of the sequence set forth in Section 855.1 until each share of stock and unit of participation certificates has a book value equal to the par value or face value, respectively.

860 LIQUIDATION

In the event of a voluntary or involuntary liquidation of the Association, following the payment of all claims in accordance with the Act and Regulations, the remainder of the assets of the Association shall be distributed in the following order of priority:

860.1 First, to the holders of common stock and participation certificates, pro rata, in proportion to the number of shares or units of each such class of stock and participation certificate then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders.

860.2 Second, to the holders of allocated surplus evidenced by qualified written notices of allocation on a pro rata basis until an amount equal to the aggregate face value of all such allocated surplus has been distributed to such holders;

860.3 Third, to the holders of allocated surplus evidenced by nonqualified written notices of allocation on a pro rata basis until an amount of equal to the aggregate face value of all such allocated surplus has been distributed to such holders; and

860.4 Fourth, any remaining assets shall be distributed to present and former Patrons (including patrons of any predecessor System institution) in the proportion to which the aggregate patronage of each such party bears to the total patronage of all such parties insofar as practical unless otherwise provided by law.

865 LIEN

Except with respect to common stock or participation certificates held by other System institutions, each of Association, MidAm, PCA and MidAm, FLCA shall have a first lien on all common stock and participation certificates in the Association owned by its borrowers as additional collateral for any indebtedness of such borrower.

All common stock and participation certificates shall be pledged to MidAm, PCA or MidAm, FLCA, as the case may be, as additional collateral for any indebtedness of the borrower to MidAm, PCA or MidAm, FLCA, respectively. Common stock and participation certificates may not be pledged or hypothecated to third parties.

870 PAID-IN SURPLUS

The Association is authorized to receive paid-in surplus from the FCB in accordance with the Act and the Regulations.

875 SECONDARY MARKET LOANS

875.1 NO PURCHASE REQUIREMENT

On or after December 1, 1996, no voting stock or participation certificate purchase requirement shall apply to a loan which is designated, at the time the loan is made, for sale to a secondary market. If the loan so designated for sale is not sold into the secondary market during the 180 day period beginning on the date of the designation, the stock and participation certificate purchase requirements shall apply.

875.2 RETIREMENT

The Board is authorized to retire stock or participation certificates on those loans sold to a secondary market prior to December 1, 1996, and on those loans designated for sale to the secondary market but not sold within the 180-day time period, provided however that the Association shall not retire such stock or participation certificates if the action would result in the failure of the Association to meet minimum capital adequacy standards established in the Regulations.

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