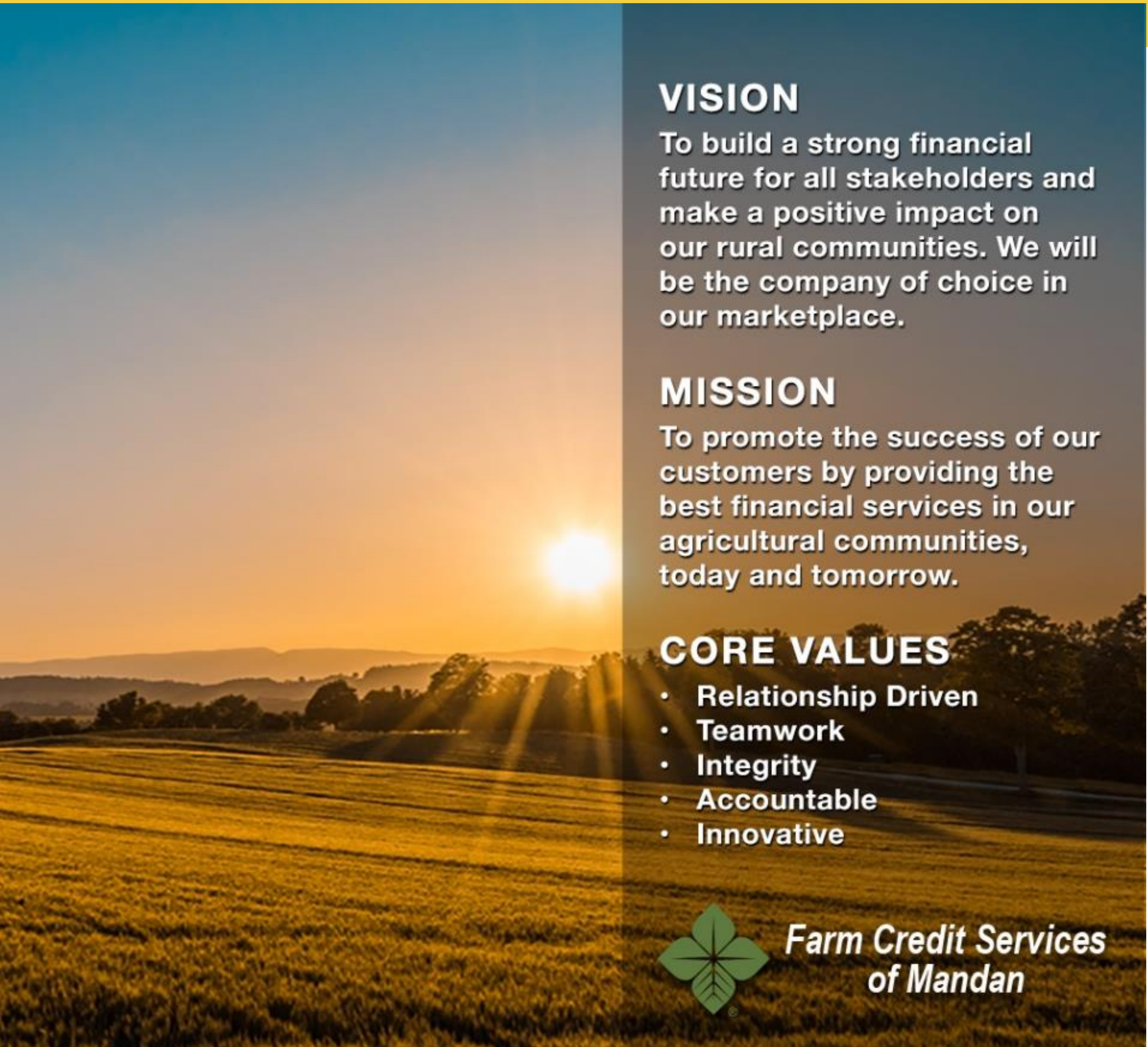
Farm Credit Services of Mandan, ACA

# 2019 ANNUAL REPORT



## VISION

To build a strong financial future for all stakeholders and make a positive impact on our rural communities. We will be the company of choice in our marketplace.

## MISSION

To promote the success of our customers by providing the best financial services in our agricultural communities, today and tomorrow.

## CORE VALUES

- Relationship Driven
- Teamwork
- Integrity
- Accountable
- Innovative

Farm Credit Services of Mandan

# TABLE OF CONTENTS

## Farm Credit Services of Mandan, ACA

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Farm Credit Services of Mandan Member:

We are proud to present this 2019 Annual Report to Shareholders of the Association. The economic environment in 2019 continued to provide both opportunities and challenges for agriculture producers. Even with the current challenges that exist in agriculture, many of our members continue to be resilient, finding ways of enhancing their own operations to be successful.

I encourage you to review the report's financial statements, footnotes, and "Management Discussion and Analysis" to learn more about your association's success. Some of this year's highlights include:

**Strong Financial Results:**

- Net earnings of $26.7 million
- Financially related services income of $4.5 million
- Year-end capital of $276.4 million
- Average loan asset growth of 4.4%
- Credit quality remained strong at 97.3%

**Enhanced Patronage:** The Association continues to be successful and remain financially strong. Our performance and strong financial position allowed the Board of Directors to declare a cash patronage distribution of $4.5 million for 2019. This is an increase of $2.1 million over the 2018 cash patronage levels and equates to an average payout of approximately 50 basis points. The remainder of our 2019 profits have been reinvested in the cooperative, to position your association for the future of supporting agriculture and rural communities in SW North Dakota.

**Vision, Mission, Core Values:** One of the more rewarding projects the board, staff and I worked on this year was creating new vision, mission and core value statements for the association. I am excited to announce the below statements that will guide our association's day to day activities to best serve our stockholders.

***Vision:*** *To build a strong financial future for all stakeholders and make a positive impact on our rural communities. We will be the company of choice in our marketplace.*

***Mission:*** *To promote the success of our customers by providing the best financial services in our agricultural communities, today and tomorrow by:*

- *Developing and retaining high-quality employees*
- *Providing resourceful ag expertise*
- *Delivering competitively-priced services*
- *Being a financially strong cooperative*

***Core Values:***

- *Relationship Driven - We value our customers, employees, and communities we serve*
- *Teamwork - We work together for mutual success*
- *Integrity - We consistently do the right thing for the right reason*
- *Accountable - We deliver on our commitments to pursue excellence*
- *Innovative - We embrace change to fulfill our vision and mission*

Our success is dependent on relationships, teamwork, integrity, accountability, and innovation. I am proud of our dedicated staff and their focus on these values to accomplish positive results for our Association. Our employees are here to help you grow your business. We appreciate the trust you put in us to make a difference in your business and wish you all the best in 2020.

Aaron Vetter

Aaron Vetter
Chief Executive Officer
Farm Credit Services of Mandan, ACA

March 6, 2020

# CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

*Farm Credit Services of Mandan, ACA*

*(dollars in thousands)*

| As of December 31 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Statement of Condition Data** | | | | | |
| Loans | **$ 1,245,427** | $ 1,150,629 | $ 1,101,613 | $ 1,047,773 | $ 1,015,414 |
| Allowance for loan losses | **3,493** | 3,225 | 2,992 | 2,769 | 2,057 |
| Net loans | **1,241,934** | 1,147,404 | 1,098,621 | 1,045,004 | 1,013,357 |
| Investment in AgriBank, FCB | **32,034** | 28,933 | 20,956 | 20,903 | 20,043 |
| Other assets | **36,164** | 34,212 | 28,886 | 25,033 | 22,463 |
| Total assets | **$ 1,310,132** | $ 1,210,549 | $ 1,148,463 | $ 1,090,940 | $ 1,055,863 |
| Obligations with maturities of one year or less | **$ 17,187** | $ 15,671 | $ 13,989 | $ 878,935 | $ 860,458 |
| Obligations with maturities greater than one year | **1,016,564** | 940,592 | 903,472 | -- | -- |
| Total liabilities | **1,033,751** | 956,263 | 917,461 | 878,935 | 860,458 |
| Capital stock and participation certificates | **2,094** | 2,156 | 2,272 | 2,375 | 2,435 |
| Unallocated surplus | **275,314** | 253,073 | 229,866 | 209,630 | 192,970 |
| Accumulated other comprehensive loss | **(1,027)** | (943) | (1,136) | -- | -- |
| Total members' equity | **276,381** | 254,286 | 231,002 | 212,005 | 195,405 |
| Total liabilities and members' equity | **1,310,132** | $ 1,210,549 | $ 1,148,463 | $ 1,090,940 | $ 1,055,863 |

| For the year ended December 31 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 33,381** | $ 33,438 | $ 31,575 | $ 29,030 | $ 28,868 |
| Provision for loan losses | **471** | 393 | 367 | 1,060 | 463 |
| Other expenses, net | **6,169** | 7,438 | 8,373 | 9,188 | 10,520 |
| Net income | **$ 26,741** | $ 25,607 | $ 22,835 | $ 18,782 | $ 17,885 |
| **Key Financial Ratios** | | | | | |
| **For the Year** | | | | | |
| Return on average assets | **2.1%** | 2.1% | 2.0% | 1.7% | 1.8% |
| Return on average members' equity | **10.1%** | 10.6% | 10.3% | 9.2% | 9.5% |
| Net interest income as a percentage of average earning assets | **2.8%** | 2.9% | 2.9% | 2.8% | 3.0% |
| Net charge-offs (recoveries) as a percentage of average loans | **0.0%** | 0.0% | 0.0% | 0.0% | 0.0% |
| **At Year End** | | | | | |
| Members' equity as a percentage of total assets | **21.1%** | 21.0% | 20.1% | 19.4% | 18.5% |
| Allowance for loan losses as a percentage of loans | **0.3%** | 0.3% | 0.3% | 0.3% | 0.2% |
| Capital ratios effective beginning January 1, 2017: | | | | | |
| Common equity tier 1 ratio | **17.5%** | 16.7% | 16.1% | N/A | N/A |
| Tier 1 capital ratio | **17.5%** | 16.7% | 16.1% | N/A | N/A |
| Total capital ratio | **17.8%** | 16.9% | 16.4% | N/A | N/A |
| Permanent capital ratio | **17.6%** | 16.7% | 16.2% | N/A | N/A |
| Tier 1 leverage ratio | **19.6%** | 19.0% | 18.7% | N/A | N/A |
| Capital ratios effective prior to 2017: | | | | | |
| Permanent capital ratio | **N/A** | N/A | N/A | 15.7% | 15.0% |
| Total surplus ratio | **N/A** | N/A | N/A | 15.5% | 14.8% |
| Core surplus ratio | **N/A** | N/A | N/A | 15.5% | 14.8% |
| **Net Income Distributed** | | | | | |
| **For the Year** | | | | | |
| Patronage distributions payable to members | **$ 4,500** | $ 2,400 | $ 2,600 | $ 2,124 | $ 2,075 |

The patronage distributions accrued for the years ended December 31, 2019, 2018, 2017, 2016, and 2015 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock, or allocated surplus during these periods.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Farm Credit Services of Mandan*, ACA

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Services of Mandan, ACA (the Association) and its subsidiaries, Farm Credit Services of Mandan, FLCA and Farm Credit Services of Mandan, 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 nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 68 customer-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) ensures the timely payment of principal and interest on Systemwide debt obligations and the retirement of protected borrower capital at par or stated value.

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 Services of Mandan, ACA
Post Office Box 5001
Mandan, ND 58554-5501
(701) 663-6487
www.farmcreditmandan.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 policies), legal, regulatory, financial markets, and economic conditions and developments in the United States (U.S.) and abroad
- Economic fluctuations in the agricultural, international, and farm-related business sectors
- Weather-related, disease, and other adverse climatic or biological conditions that periodically occur and can impact agricultural productivity and income
- Changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions
- Actions taken by the Federal Reserve System in implementing monetary policy
- Credit, interest rate, and liquidity risks inherent in our lending activities
- Changes in our assumptions for determining the allowance for loan losses and fair value measurements
- Industry outlooks for agricultural conditions

## AGRICULTURAL AND ECONOMIC CONDITIONS

Early production results from the 2019 small grain harvest were satisfactory with good yields and quality; however, wet conditions delayed harvest and created quality issues in isolated areas of our territory. Yields for row and oil crops were excellent; however, some acres remain standing and will be harvested as the crop dries and snow coverage allows. Many producers with standing crops have been granted an extended harvest deadline for multi-peril crop insurance. Commodity prices for most crops grown in our service area have improved but remain low. This will continue to challenge the profitability of our producers. Market Facilitation Program payments on commodities effected by the trade disruption will assist in improving profit margins.

Wet fall conditions made it difficult for cattle producers to access feed supplies, some of which were damaged by excessive moisture. Producers have also begun winter feeding sooner than anticipated due to early winter conditions. Feed supplies are a concern, and unexpected feed purchases will further strain earnings. Cattle prices have moved higher from contract lows this summer but remain below 2018 levels.

The demand for real estate remains strong, and land prices have generally held steady.

Despite the above challenges, nearly all producers will continue to modify their operations to remain profitable, obtain financing and continue their farming and ranch operations.

## LOAN PORTFOLIO

### Loan Portfolio

Total loans were $1.2 billion at December 31, 2019, an increase of $94.8 million from December 31, 2018.

**Components of Loans**

(in thousands)

| As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Accrual loans: | | | |
| Real estate mortgage | **$ 444,400** | $ 404,829 | $ 379,080 |
| Production and intermediate-term | **401,735** | 402,853 | 406,423 |
| Agribusiness | **262,989** | 219,937 | 205,026 |
| Other | **133,736** | 120,481 | 109,633 |
| Nonaccrual loans | **2,567** | 2,529 | 1,451 |
| Total loans | **$ 1,245,427** | $ 1,150,629 | $ 1,101,613 |

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

The increase in total loans from December 31, 2018 was due primarily to growth in participation volume through our alliance with AgCountry CFG along with increases in our traditional real estate loans. See the Other Relationships and Programs section for further discussion on AgCountry CFG.

We have sold to AgriBank participation interests in certain loans as part of pool programs. Beginning in 2018, we sell to AgriBank a 100% participation interest in production and intermediate-term loans associated with the ProPartners Financial (ProPartners) alliance. The total outstanding participation interests in these programs were $51.6 million, $48.9 million, and $3.1 million at December 31, 2019, 2018, and 2017, respectively.

We offer variable, fixed, indexed, and adjustable interest rate loan programs to our borrowers**.** We determine interest margins charged on each lending program based on cost of funds, credit risk, market conditions, and the need to generate sufficient earnings. We also offer lease programs through our affiliation with Farm Credit Leasing. Refer to the Relationships with Other Farm Credit Institutions section of Management's discussion and analysis.

### Portfolio Distribution

We are chartered to serve certain counties in North Dakota. Approximately 18.7% of our total loan portfolio was in Morton, Burleigh, and Stark at December 31, 2019.

**Agricultural Concentrations**

| As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Cash grains excluding wheat | **28.8%** | 29.0% | 31.8% |
| General livestock | **17.2%** | 17.5% | 17.3% |
| Processing and marketing | **18.3%** | 17.4% | 17.7% |
| Beef and cattle | **12.1%** | 13.7% | 11.5% |
| Wheat | **5.2%** | 5.1% | 4.9% |
| Landlords | **3.7%** | 3.8% | 4.5% |
| Other | **14.7%** | 13.5% | 12.3% |
| 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.

Our production and intermediate-term loan portfolio exhibits some seasonality relating to patterns of operating loans made to crop producers. These loans are normally at their lowest levels following the harvest and then increase in the spring and throughout the rest of the year as borrowers fund operating needs.

### Portfolio Credit Quality

The credit quality of our portfolio declined from December 31, 2018. Adversely classified loans increased to 2.7% of the portfolio at December 31, 2019, from 1.9% of the portfolio at December 31, 2018. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2019, $28.9 million of our loans were, to some level, guaranteed under these government programs.

### Risk Assets

**Components of Risk Assets**

(dollars in thousands)

| As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Loans: | | | |
| Nonaccrual | **$ 2,567** | $ 2,529 | $ 1,451 |
| Accruing restructured | **--** | -- | 7 |
| Accruing loans 90 days or more past due | **151** | -- | 281 |
| Total risk loans | **2,718** | 2,529 | 1,739 |
| Other property owned | **--** | 6 | -- |
| Total risk assets | **$ 2,718** | $ 2,535 | $ 1,739 |
| Total risk loans as a percentage of total loans | **0.2%** | 0.2% | 0.2% |
| Nonaccrual loans as a percentage of total loans | **0.2%** | 0.2% | 0.1% |
| Current nonaccrual loans as a percentage of total nonaccrual loans | **57.8%** | 78.6% | 16.8% |
| Total delinquencies as a percentage of total loans | **0.4%** | 0.1% | 0.6% |

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2018, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

The increase in accruing loans 90 days or more past due was primarily due to the addition of one loan in the production and intermediate-term loan category. Our accounting policy requires loans past due 90 days or more to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on our analysis, accruing loans 90 days or more past due were eligible to remain in accruing status.

### Allowance for Loan Losses

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

**Allowance Coverage Ratios**

| As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Allowance as a percentage of: | | | |
| Loans | **0.3%** | 0.3% | 0.3% |
| Nonaccrual loans | **136.1%** | 127.5% | 206.2% |
| Total risk loans | **128.5%** | 127.5% | 172.1% |
| Adverse assets to total regulatory capital | **13.9%** | 9.7% | 7.0% |

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2019.

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

## RESULTS OF OPERATIONS

**Profitability Information**

(dollars in thousands)

| For the year ended December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Net income | **$ 26,741** | $ 25,607 | $ 22,835 |
| Return on average assets | **2.1%** | 2.1% | 2.0% |
| Return on average members' equity | **10.1%** | 10.6% | 10.3% |

Changes in the chart above relate directly to:

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

**Changes in Significant Components of Net Income**

| (in thousands) | For the year ended December 31 2019 | 2018 | 2017 | Increase (decrease) in net income 2019 vs 2018 | 2018 vs 2017 |
|---|---|---|---|---|---|
| Net interest income | **$ 33,381** | $ 33,438 | $ 31,575 | **$ (57)** | $ 1,863 |
| Provision for loan losses | **471** | 393 | 367 | **(78)** | (26) |
| Non-interest income | **13,156** | 12,598 | 10,630 | **558** | 1,968 |
| Non-interest expense | **19,053** | 19,333 | 18,072 | **280** | (1,261) |
| Provision for income taxes | **272** | 703 | 931 | **431** | 228 |
| Net income | **$ 26,741** | $ 25,607 | $ 22,835 | **$ 1,134** | $ 2,772 |

## Net Interest Income

**Changes in Net Interest Income**

(in thousands)

| For the year ended December 31 | 2019 vs 2018 | 2018 vs 2017 |
|---|---|---|
| Changes in volume | **$ 1,576** | $ 1,979 |
| Changes in interest rates | **(1,425)** | (211) |
| Changes in nonaccrual income and other | **(208)** | 95 |
| Net change | **$ (57)** | $ 1,863 |

Net interest income included income on nonaccrual loans that totaled $117 thousand, $324 thousand, and $229 thousand in 2019, 2018, and 2017, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected, and prior charge-offs have been recovered.

Net interest margin (net interest income as a percentage of average earning assets) was 2.8%, 2.9%, and 2.9% in 2019, 2018, and 2017, respectively. Our net interest margin is sensitive to interest rate changes and competition.

## Provision for Loan Losses

The fluctuation in the provision for loan losses was related to our estimate of losses in our portfolio for the applicable years. Additional discussion is included in Note 3 to the accompanying Consolidated Financial Statements.

## Non-Interest Income

The change in non-interest income was primarily due to an increase in patronage income offset by a decrease to our share of the Allocated Insurance Reserve Accounts (AIRA) received from the Farm Credit System Insurance Corporation (FCSIC) and due to nonrecurring gains recognized in 2018.

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 | 2019 | 2018 | 2017 |
|---|---|---|---|
| Wholesale patronage | **$ 5,487** | $ 5,092 | $ 4,642 |
| Pool program patronage | **1,316** | 236 | 110 |
| Other Farm Credit Institution patronage | **11** | 9 | 10 |
| Total patronage income | **$ 6,814** | $ 5,337 | $ 4,762 |
| Form of patronage distributions: | | | |
| Cash | **$ 4,280** | $ 5,337 | $ 4,762 |
| Stock | **2,534** | -- | -- |
| Total patronage income | **$ 6,814** | $ 5,337 | $ 4,762 |

Wholesale patronage income is based on the average balance of our note payable to AgriBank. The patronage rates were 55.9 basis points, 54.1 basis points, and 52.1 basis points in 2019, 2018, and 2017, respectively. AgriBank may distribute patronage in the form of stock or cash as determined by AgriBank's capital plan. A portion of the patronage in 2019 was paid in allocated stock. All patronage was paid in cash during 2018 and 2017. See the Relationship with AgriBank section for further discussion on patronage income.

In addition, the wholesale patronage balance includes equalization. Equalization is determined based on the quarterly average balance of stock in excess of our AgriBank required investment. The equalization rate is targeted at the average cost of funds for all District associations as a group.

We have participated in pool programs in which we sell participation interests in certain loans to AgriBank. As part of these programs, we received patronage income in an amount that approximated the net earnings of the loans, less certain expenses. Net earnings represents the net interest income associated with these loans adjusted for certain fees and costs specific to the related loans as well as adjustments deemed appropriate by AgriBank related to the credit performance of the loans, as applicable.

**Allocated Insurance Reserve Accounts Distribution:** We received distributions from the AIRA of $273 thousand and $653 thousand in 2019 and 2018, respectively. The AIRA was established by the FCSIC when premiums collected increased the level of the Insurance Fund beyond the required secured base amount of 2.0% of insured debt. There were no AIRA distributions in 2017.

### Non-Interest Expense

**Components of Non-interest Expense**

(dollars in thousands)

| For the year ended December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Salaries and employee benefits | **$ 11,842** | $ 11,736 | $ 11,285 |
| Other operating expense: | | | |
| Purchased and vendor services | **1,462** | 1,548 | 1,051 |
| Communications | **140** | 127 | 100 |
| Occupancy and equipment | **1,251** | 1,241 | 905 |
| Advertising and promotion | **466** | 449 | 404 |
| Examination | **453** | 420 | 456 |
| Farm Credit System insurance | **905** | 868 | 1,362 |
| Other | **2,534** | 2,611 | 2,472 |
| Other non-interest expense | **--** | 333 | 37 |
| Total non-interest expense | **$ 19,053** | $ 19,333 | $ 18,072 |
| Operating rate | **1.6%** | 1.7% | 1.7% |

### Provision for Income Taxes

The variance in provision for income taxes was related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2019, 2018, and 2017. Additional discussion is included in Note 7 to the accompanying Consolidated Financial Statements.

## FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 5 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2019, we had $379.1 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

**Note Payable Information**

(dollars in thousands)

| For the year ended December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Average balance | **$ 979,535** | $ 941,951 | $ 889,799 |
| Average interest rate | **2.7%** | 2.4% | 1.7% |

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 London Inter-bank Offered Rate (LIBOR), primarily from loans to customers which may not have a component of our line of credit with an exact repricing attribute. Regulators in the U.S. and worldwide have expressed their desire to phase-out LIBOR, and other inter-bank offered rates, by the end of 2021. They have indicated that the reliability and stability of LIBOR as a benchmark rate after 2021 cannot be assured. The Farm Credit System has established a LIBOR transition workgroup to provide leadership in addressing the LIBOR phase-out across system entities. While many factors can impact our net interest income, we expect that financial performance will remain relatively consistent under most interest rate environments over the next 12 months.

A further source of lendable funds is from equity. In addition, with approval from AgriBank, on July 24, 2006, we entered into a loan agreement with CoBank, ACB (CoBank), a System bank, to obtain funding in the amount not to exceed $20.0 million in connection with specific CoBank related transactions. The interest rate on such indebtedness is established at the time of the related transactions. No CoBank related transactions occurred in 2019, 2018, or 2017 and as of December 31, 2019, there is no outstanding balance on this agreement.

## CAPITAL ADEQUACY

Total members' equity was $276.4 million, $254.3 million, and $231.0 million at December 31, 2019, 2018, and 2017, respectively. Total members' equity increased $22.1 million from December 31, 2018, primarily due to net income for the year, partially offset by patronage distribution accruals. Accumulated other comprehensive loss is the amortization impact of prior service cost and unamortized actuarial gain/loss related to the Pension Restoration Plan. Additional Pension Restoration Plan information is included in Note 8 to the accompanying Consolidated Financial Statements.

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 | **2019** | 2018 | 2017 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|---|
| Risk-adjusted: | | | | | | |
| Common equity tier 1 ratio | **17.5%** | 16.7% | 16.1% | 4.5% | 2.5%* | 7.0% |
| Tier 1 capital ratio | **17.5%** | 16.7% | 16.1% | 6.0% | 2.5%* | 8.5% |
| Total capital ratio | **17.8%** | 16.9% | 16.4% | 8.0% | 2.5%* | 10.5% |
| Permanent capital ratio | **17.6%** | 16.7% | 16.2% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 leverage ratio | **19.6%** | 19.0% | 18.7% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **20.6%** | 19.6% | 19.1% | 1.5% | N/A | 1.5% |

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

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

Capital ratios are directly impacted by changes in capital, assets, and off-balance sheet commitments. Refer to the Loan Portfolio section for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 6 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 was 14% to 18%, as defined in our 2020 capital plan.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2020.

## RELATIONSHIP WITH AGRIBANK

### Borrowing

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

The components of cost of funds under the GFA include:

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

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

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

### Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing distributed AgriBank surplus. During 2019, we were required by AgriBank to maintain an investment equal to 2.25% 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. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

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

### Patronage

AgriBank's 2019 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 stock. 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.

We receive the below types of discretionary patronage from AgriBank. Patronage income earned may be paid in cash and AgriBank stock. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income in 2018 and 2017 was paid in cash.

- Wholesale patronage which includes:
  - Patronage on our note payable with AgriBank
  - Equalization patronage based on our excess stock in AgriBank
- Pool program patronage based on the net earnings of loan participation interests sold to AgriBank

### Purchased Services

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $583 thousand, $594 thousand, and $536 thousand in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

### Impact on Members' Investment

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

## OTHER RELATIONSHIPS AND PROGRAMS

### Relationships with Other Farm Credit Institutions

**AgCountry CFG:** We participate in AgCountry CFG, an alliance with certain other associations in the AgriBank District to better meet the financial needs of agricultural producers and agribusiness operations. AgCountry CFG is directed by representatives from participating associations. The income, expense, and credit risks are allocated based on each association's participation interest of the AgCountry CFG volume. Each association determines its commitment for new volume opportunities based on its capacity and preferences. We had $401.8 million, $348.7 million, and $307.0 million of AgCountry CFG volume at December 31, 2019, 2018, and 2017, respectively. We also had $162.6 million of available commitment on AgCountry CFG loans at December 31, 2019.

**ProPartners Financial:** We participate in ProPartners Financial (ProPartners) with certain other associations in the Farm Credit System to provide producer financing through agribusinesses that sell crop inputs. ProPartners is directed by representatives from participating associations. Through November 30, 2018, the income, expense, and credit risks were allocated based on each association's participation interest of the ProPartners volume. Each association's allocation was established based on mutual agreement of the owners. We had $42.1 million of ProPartners volume at December 31, 2017. On December 1, 2018, we sold to AgriBank our entire interest in the loans associated with ProPartners. As part of this program we receive discretionary patronage income from AgriBank that approximates the net earnings of the loans. AgriBank immediately purchases a 100% participation interest in all new ProPartners loans; therefore, we had no remaining ProPartners balance at December 31, 2019, or 2018.

**CentRic Technology Collaboration:** We participate in CentRic Technology Collaboration (CTC) with certain other AgriBank District associations. The CTC facilitates the development and maintenance of certain retail technology systems essential to providing credit and other services to our members. The CTC operations are governed by representatives of each participating association. The expenses of CTC are allocated to each of the participating associations based on an agreed upon formula. The systems developed are owned by each of the participating associations.

**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.

**FCS of North Dakota, ACA:** Effective January 1, 2017, we formed an alliance with FCS of North Dakota, ACA to integrate the associations' Technology Departments. All IT staff are jointly employed and managed by both associations.

**CoBank, ACB:** In addition to the lending relationship described in the Funding and Liquidity section, we have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing participation interests in loans. As part of this relationship, our equity investment in CoBank was $6 thousand, $9 thousand, and $13 thousand at December 31, 2019, 2018, and 2017, respectively.

**Farm Credit Foundations:** We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource information systems, and benefit, payroll, and workforce management services. As of December 31, 2019, 2018, and 2017, our investment in Foundations was $17 thousand. The total cost of services we purchased from Foundations was $131 thousand, $110 thousand, and $112 thousand in 2019, 2018, and 2017, respectively.

### Programs

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

**Equipment Financing:** We have entered into agreements with certain dealer networks to provide alternative service delivery channels to borrowers. These trade credit opportunities create more flexible and accessible financing options to borrowers through dealer point-of-purchase financing programs.

**AgriSolutions:** We have an alliance with AgriSolutions, a farm software and consulting company, to provide farm records, income tax planning and preparation services, farm business consulting, and producer education seminars.

**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

### Investment Securities Eligibility

On September 19, 2019, the FCA issued a proposed regulation regarding investment eligibility. The proposed regulation amends the regulations that became effective January 1, 2019, and would allow associations to purchase and hold portions of certain loans that non-Farm Credit System institutions originate and sell in the secondary market, and that the United States Department of Agriculture unconditionally guarantees as to the timely payment of principal and interest. The comment period for this proposed rulemaking ended on November 18, 2019, and the final regulation has not yet been issued.

# REPORT OF MANAGEMENT

*Farm Credit Services of Mandan, ACA*

We prepare the Consolidated Financial Statements of Farm Credit Services of Mandan, 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.

Michael J Schaaf

Michael J. Schaaf
Chairperson of the Board
Farm Credit Services of Mandan, ACA

Aaron Vetter

Aaron Vetter
Chief Executive Officer
Farm Credit Services of Mandan, ACA

Sandy Nagel

Sandy Nagel
Vice President – Finance, Chief Financial Officer
Farm Credit Services of Mandan, ACA

March 6, 2020

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

*Farm Credit Services of Mandan, ACA*

The Farm Credit Services of Mandan, ACA (the Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate 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, 2019. 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, 2019, 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, 2019.

Aaron Vetter

Aaron Vetter
Chief Executive Officer
Farm Credit Services of Mandan, ACA

Sandy Nagel

Sandy Nagel
Vice President – Finance, Chief Financial Officer
Farm Credit Services of Mandan, ACA

March 6, 2020

# REPORT OF AUDIT COMMITTEE

*Farm Credit Services of Mandan, ACA*

The Consolidated Financial Statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of the entire Board of Directors of Farm Credit Services of Mandan, ACA (the Association). However, the Board of Directors voted at the December 2019 meeting to move from including the full board on the Audit Committee to a subset of the board which will consist of four committee members. This was effective as of December 20, 2019. 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, 2019, 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*.

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, 2019.

Sheldon H Wolf

Sheldon Wolf
Chairperson of the Audit Committee
Farm Credit Services of Mandan, ACA

Members of Audit Committee:

Cary Moch
Becky Hansen
Michael Schaaf

March 6, 2020

pwc

## Report of Independent Auditors

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

We have audited the accompanying Consolidated Financial Statements of Farm Credit Services of Mandan, ACA and its subsidiaries (the Association), which comprise the consolidated statements of condition as of December 31, 2019, 2018, and 2017, 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 Services of Mandan, ACA and its subsidiaries as of December 31, 2019, 2018, and 2017, 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 6, 2020

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

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Services of Mandan, ACA*

*(in thousands)*

| As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Loans | **$ 1,245,427** | $ 1,150,629 | $ 1,101,613 |
| Allowance for loan losses | **3,493** | 3,225 | 2,992 |
| Net loans | **1,241,934** | 1,147,404 | 1,098,621 |
| Investment in AgriBank, FCB | **32,034** | 28,933 | 20,956 |
| Accrued interest receivable | **18,573** | 17,641 | 14,626 |
| Other assets | **17,591** | 16,571 | 14,260 |
| Total assets | **$ 1,310,132** | $ 1,210,549 | $ 1,148,463 |
| **LIABILITIES** | | | |
| Note payable to AgriBank, FCB | **$ 1,016,564** | $ 940,592 | $ 903,472 |
| Accrued interest payable | **6,205** | 6,307 | 4,085 |
| Deferred tax liabilities, net | **508** | 397 | 518 |
| Patronage distribution payable | **4,500** | 2,400 | 2,600 |
| Other liabilities | **5,974** | 6,567 | 6,786 |
| Total liabilities | **1,033,751** | 956,263 | 917,461 |
| Contingencies and commitments (Note 10) | | | |
| **MEMBERS' EQUITY** | | | |
| Capital stock and participation certificates | **2,094** | 2,156 | 2,272 |
| Unallocated surplus | **275,314** | 253,073 | 229,866 |
| Accumulated other comprehensive loss | **(1,027)** | (943) | (1,136) |
| Total members' equity | **276,381** | 254,286 | 231,002 |
| Total liabilities and members' equity | **$ 1,310,132** | $ 1,210,549 | $ 1,148,463 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

*Farm Credit Services of Mandan, ACA*

*(in thousands)*

| For the year ended December 31 | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Interest income** | **$ 59,706** | $ 55,676 | $ 46,585 |
| **Interest expense** | **26,325** | 22,238 | 15,010 |
| Net interest income | **33,381** | 33,438 | 31,575 |
| **Provision for loan losses** | **471** | 393 | 367 |
| Net interest income after provision for loan losses | **32,910** | 33,045 | 31,208 |
| **Non-interest income** | | | |
| Patronage income | **6,814** | 5,337 | 4,762 |
| Financially related services income | **4,545** | 4,625 | 4,555 |
| Fee income | **1,262** | 1,287 | 1,163 |
| Allocated Insurance Reserve Accounts distribution | **273** | 653 | -- |
| Other non-interest income | **262** | 696 | 150 |
| Total non-interest income | **13,156** | 12,598 | 10,630 |
| **Non-interest expense** | | | |
| Salaries and employee benefits | **11,842** | 11,736 | 11,285 |
| Other operating expense | **7,211** | 7,264 | 6,750 |
| Other non-interest expense | **--** | 333 | 37 |
| Total non-interest expense | **19,053** | 19,333 | 18,072 |
| Income before income taxes | **27,013** | 26,310 | 23,766 |
| **Provision for income taxes** | **272** | 703 | 931 |
| Net income | **$ 26,741** | $ 25,607 | $ 22,835 |
| | | | |
| **Other comprehensive (loss) income** | | | |
| Employee benefit plans activity | **$ (84)** | $ 193 | $ -- |
| Total other comprehensive (loss) income | **(84)** | 193 | -- |
| Comprehensive income | **$ 26,657** | $ 25,800 | $ 22,835 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Services of Mandan, ACA*

*(in thousands)*

| | Capital Stock and Participation Certificates | Unallocated Surplus | Accumulated Other Comprehensive Loss | Total Members' Equity |
|---|---|---|---|---|
| Balance as of December 31, 2016 | $ 2,375 | $ 209,630 | $ -- | $ 212,005 |
| Net income | -- | 22,835 | -- | 22,835 |
| Other comprehensive loss and other | -- | -- | (1,136) | (1,136) |
| Unallocated surplus designated for patronage distributions | -- | (2,599) | -- | (2,599) |
| Capital stock and participation certificates issued | 73 | -- | -- | 73 |
| Capital stock and participation certificates retired | (176) | -- | -- | (176) |
| Balance as of December 31, 2017 | 2,272 | 229,866 | (1,136) | 231,002 |
| Net income | -- | 25,607 | -- | 25,607 |
| Other comprehensive income | -- | -- | 193 | 193 |
| Unallocated surplus designated for patronage distributions | -- | (2,400) | -- | (2,400) |
| Capital stock and participation certificates issued | 70 | -- | -- | 70 |
| Capital stock and participation certificates retired | (186) | -- | -- | (186) |
| Balance as of December 31, 2018 | 2,156 | 253,073 | (943) | 254,286 |
| Net income | **--** | **26,741** | **--** | **26,741** |
| Other comprehensive loss | **--** | **--** | **(84)** | **(84)** |
| Unallocated surplus designated for patronage distributions | **--** | **(4,500)** | **--** | **(4,500)** |
| Capital stock and participation certificates issued | **116** | **--** | **--** | **116** |
| Capital stock and participation certificates retired | **(178)** | **--** | **--** | **(178)** |
| **Balance as of December 31, 2019** | **$ 2,094** | **$ 275,314** | **$ (1,027)** | **$ 276,381** |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*Farm Credit Services of Mandan, ACA*

*(in thousands)*

| For the year ended December 31 | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income | **$ 26,741** | $ 25,607 | $ 22,835 |
| Depreciation on premises and equipment | **419** | 426 | 397 |
| Gain on sale of premises and equipment | **(58)** | (371) | (72) |
| Depreciation on assets held for lease | **1** | 8 | 8 |
| (Discounts) amortization of premiums on loans | **(16)** | 83 | 52 |
| Provision for loan losses | **471** | 393 | 367 |
| Stock patronage received from AgriBank, FCB | **(2,534)** | -- | -- |
| Gain on other property owned, net | **2** | -- | -- |
| Changes in operating assets and liabilities: | | | |
| Increase in accrued interest receivable | **(1,158)** | (3,047) | (811) |
| Increase in other assets | **(1,202)** | (1,437) | (1,561) |
| (Decrease) increase in accrued interest payable | **(102)** | 2,222 | 969 |
| Decrease in other liabilities | **(566)** | (147) | (216) |
| Net cash provided by operating activities | **21,998** | 23,737 | 21,968 |
| **Cash flows from investing activities** | | | |
| Increase in loans, net | **(94,662)** | (49,174) | (53,965) |
| Purchases of investment in AgriBank, FCB, net | **(567)** | (7,978) | (53) |
| Redemptions of investment in other Farm Credit Institutions, net | **2** | 4 | 8 |
| Decrease in investment securities, net | **--** | 119 | 60 |
| Sales of assets held for lease, net | **14** | -- | 1 |
| Proceeds from sales of other property owned | **4** | -- | 40 |
| Purchases of premises and equipment, net | **(202)** | (1,063) | (1,941) |
| Net cash used in investing activities | **(95,411)** | (58,092) | (55,850) |
| **Cash flows from financing activities** | | | |
| Increase in note payable to AgriBank, FCB, net | **75,972** | 37,120 | 36,161 |
| Patronage distributions paid | **(2,400)** | (2,600) | (2,123) |
| Capital stock and participation certificates retired, net | **(159)** | (165) | (156) |
| Net cash provided by financing activities | **73,413** | 34,355 | 33,882 |
| Net change in cash | **--** | -- | -- |
| Cash at beginning of year | **--** | -- | -- |
| Cash at end of year | **$ --** | $ -- | $ -- |
| **Supplemental schedule of non-cash activities** | | | |
| Stock financed by loan activities | **$ 112** | $ 66 | $ 70 |
| Stock applied against loan principal | **14** | 16 | 16 |
| Stock applied against loan interest | **1** | 1 | 1 |
| Interest transferred to loans | **225** | 31 | 53 |
| Loans transferred to other property owned | **--** | 6 | 40 |
| Patronage distributions payable to members | **4,500** | 2,400 | 2,600 |
| Decrease (increase) in members' equity from employee benefits | **(84)** | 193 | (1,136) |
| **Supplemental information** | | | |
| Interest paid | **$ 26,427** | $ 20,016 | $ 14,041 |
| Taxes paid, net | **863** | 759 | 1,093 |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Farm Credit Services of Mandan, ACA*

## NOTE 1: ORGANIZATION AND OPERATIONS

### Farm Credit System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. As of January 1, 2020, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 68 customer-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, 2020, 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 Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations, to ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes.

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

### Association

Farm Credit Services of Mandan, ACA (the Association) and its subsidiaries, Farm Credit Services of Mandan, FLCA and Farm Credit Services of Mandan, PCA (subsidiaries) are lending institutions of the System. We are a customer-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Adams, Billings, Bowman, Burleigh, Dunn, Emmons, Golden Valley, Grant, Hettinger, Kidder, Logan, McIntosh, Mercer, Morton, Oliver, Sioux, Slope, Stark and in the southern portions of McLean and Sheridan counties in the state of North Dakota.

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. FLCA makes secured long-term agricultural real estate mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans.

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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Accounting Principles and Reporting Policies

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

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

**Principles of Consolidation**

The Consolidated Financial Statements present the consolidated financial results of Farm Credit Services of Mandan, 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 nonaccrual status when principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan, unless the net realizable value is less than the recorded investment in the loan, then it is charged-off against the allowance for loan losses. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, the borrower has demonstrated payment performance, and the loan is not classified as doubtful or loss.

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).

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

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

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

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

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

Changes in the allowance for loan losses consist of provision activity, recorded in "Provision for 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 and are included in "Other assets" in the Consolidated Statements of Condition. 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. We had no investment securities in 2019 and 2018. We had no impairments in 2019, 2018, and 2017.

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

**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 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 operating leases with terms greater than 12 months the right-of-use (ROU) assets are included in “Other assets” in the Consolidated Statements of Condition and the lease liabilities are included in “Other liabilities” in the Consolidated Statements of Condition.

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

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

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

Certain employees also participate in the AgriBank District Pension Restoration Plan. This plan restores retirement benefits to certain highly compensated eligible employees that would have been provided under the qualified plan if such benefits were not above certain Internal Revenue Code limits. Beginning in 2017, 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 would be recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss would be recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income. However, no such reserve was necessary as of December 31, 2019, 2018, or 2017.

**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 February 2016, the FASB issued Accounting Standards Updated (ASU) 2016-02 "Leases." In July 2018, the FASB issued ASU 2018-11 "Leases (Topic 842): Targeted Improvements." The guidance was effective for public business entities in its first quarter of 2019 and early adoption was permitted. | The guidance modifies the recognition and accounting for lessees and lessors and requires expanded disclosures regarding assumptions used to recognize revenue and expenses related to leases. Upon adoption, a liability for lease obligations and a corresponding right-of-use asset is recognized on the Consolidated Statements of Condition for all lease arrangements spanning more than 12 months. The guidance includes an optional transition method where an entity is permitted to apply the guidance as of the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. | We adopted this guidance on January 1, 2019. The adoption of this guidance did not have a material impact on our financial condition, results of operations, and financial statement disclosures, and had no impact on cash flows. |
| In June 2016, the FASB issued 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 are evaluating the deferral and have not yet determined if we will early adopt the standard. We have reviewed the accounting standard, selected and substantially completed development and testing of our system, and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements. |

## NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

**Loans by Type**

| (dollars in thousands) | **2019** | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| As of December 31 | Amount | % | Amount | % | Amount | % |
| Real estate mortgage | **$ 444,958** | **35.7%** | $ 405,266 | 35.2% | $ 379,096 | 34.4% |
| Production and intermediate-term | **403,035** | **32.4%** | 403,481 | 35.1% | 407,857 | 37.0% |
| Agribusiness | **262,994** | **21.1%** | 220,616 | 19.2% | 205,026 | 18.6% |
| Other | **134,440** | **10.8%** | 121,266 | 10.5% | 109,634 | 10.0% |
| Total | **$ 1,245,427** | **100.0%** | $ 1,150,629 | 100.0% | $ 1,101,613 | 100.0% |

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

### Portfolio Concentrations

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

As of December 31, 2019, volume plus commitments to our ten largest borrowers totaled an amount equal to 8.1% 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 typically includes farmland and income-producing property, such as crops and livestock. Long-term real estate loans are secured by the first liens on the underlying real property.

### Participations

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

**Participations Purchased and Sold**

| (in thousands) | AgriBank Participations | | Other Farm Credit Institutions Participations | | Non-Farm Credit Institutions Participations | | Total Participations | |
|---|---|---|---|---|---|---|---|---|
| **As of December 31, 2019** | Purchased | Sold | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | **$ --** | **$ (2,816)** | **$ 28,104** | **$ --** | **$ 2,929** | **$ (570)** | **$ 31,033** | **$ (3,386)** |
| Production and intermediate-term | **--** | **(48,785)** | **86,902** | **--** | **241** | **(267)** | **87,143** | **(49,052)** |
| Agribusiness | **--** | **--** | **262,475** | **(2,021)** | **--** | **--** | **262,475** | **(2,021)** |
| Other | **--** | **--** | **149,560** | **(17,590)** | **--** | **--** | **149,560** | **(17,590)** |
| Total | **$ --** | **$ (51,601)** | **$ 527,041** | **$ (19,611)** | **$ 3,170** | **$ (837)** | **$ 530,211** | **$ (72,049)** |

| | AgriBank Participations | | Other Farm Credit Institutions Participations | | Non-Farm Credit Institutions Participations | | Total Participations | |
|---|---|---|---|---|---|---|---|---|
| As of December 31, 2018 | Purchased | Sold | Purchased | Sold | Purchased | Sold | Purchased | Sold |
| Real estate mortgage | $ -- | $ (3,016) | $ 30,630 | $ -- | $ 2,977 | $ (620) | $ 33,607 | $ (3,636) |
| Production and intermediate-term | -- | (45,873) | 77,321 | -- | 154 | (260) | 77,475 | (46,133) |
| Agribusiness | -- | -- | 219,352 | (2,039) | -- | -- | 219,352 | (2,039) |
| Other | -- | -- | 139,006 | (20,562) | -- | -- | 139,006 | (20,562) |
| Total | $ -- | $ (48,889) | $ 466,309 | $ (22,601) | $ 3,131 | $ (880) | $ 469,440 | $ (72,370) |

| As of December 31, 2017 | AgriBank Participations Purchased | AgriBank Participations Sold | Other Farm Credit Institutions Participations Purchased | Other Farm Credit Institutions Participations Sold | Non-Farm Credit Institutions Participations Purchased | Non-Farm Credit Institutions Participations Sold | Total Participations Purchased | Total Participations Sold |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage | $ -- | $ (3,102) | $ 21,604 | $ -- | $ 2,125 | $ (431) | $ 23,729 | $ (3,533) |
| Production and intermediate-term | -- | -- | 70,243 | -- | 116 | (299) | 70,359 | (299) |
| Agribusiness | -- | -- | 203,405 | (2,954) | -- | -- | 203,405 | (2,954) |
| Other | -- | -- | 130,457 | (23,759) | -- | -- | 130,457 | (23,759) |
| Total | $ -- | $ (3,102) | $ 425,709 | $ (26,713) | $ 2,241 | $ (730) | $ 427,950 | $ (30,545) |

Information in the preceding chart excludes loans entered into under our mission related investment authority and leasing 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, 2019, 2018, or 2017.

**Credit Quality of Loans**

| (dollars in thousands) **As of December 31, 2019** | Acceptable Amount | Acceptable % | Special Mention Amount | Special Mention % | Substandard/ Doubtful Amount | Substandard/ Doubtful % | Total Amount | Total % |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 429,168** | **94.4%** | **$ 14,222** | **3.1%** | **$ 11,420** | **2.5%** | **$ 454,810** | **100.0%** |
| Production and intermediate-term | **382,804** | **93.1%** | **11,744** | **2.9%** | **16,243** | **4.0%** | **410,791** | **100.0%** |
| Agribusiness | **253,609** | **96.1%** | **7,004** | **2.7%** | **3,178** | **1.2%** | **263,791** | **100.0%** |
| Other | **128,473** | **95.4%** | **2,264** | **1.7%** | **3,871** | **2.9%** | **134,608** | **100.0%** |
| Total | **$ 1,194,054** | **94.5%** | **$ 35,234** | **2.8%** | **$ 34,712** | **2.7%** | **$ 1,264,000** | **100.0%** |

| As of December 31, 2018 | Acceptable Amount | Acceptable % | Special Mention Amount | Special Mention % | Substandard/ Doubtful Amount | Substandard/ Doubtful % | Total Amount | Total % |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage | $ 386,690 | 93.3% | $ 20,812 | 5.0% | $ 7,165 | 1.7% | $ 414,667 | 100.0% |
| Production and intermediate-term | 383,236 | 93.3% | 15,659 | 3.8% | 11,870 | 2.9% | 410,765 | 100.0% |
| Agribusiness | 216,504 | 97.8% | 2,840 | 1.3% | 1,982 | 0.9% | 221,326 | 100.0% |
| Other | 116,342 | 95.7% | 4,005 | 3.3% | 1,165 | 1.0% | 121,512 | 100.0% |
| Total | $ 1,102,772 | 94.4% | $ 43,316 | 3.7% | $ 22,182 | 1.9% | $ 1,168,270 | 100.0% |

| As of December 31, 2017 | Acceptable Amount | Acceptable % | Special Mention Amount | Special Mention % | Substandard/ Doubtful Amount | Substandard/ Doubtful % | Total Amount | Total % |
|---|---|---|---|---|---|---|---|---|
| Real estate mortgage | $ 368,820 | 95.3% | $ 11,982 | 3.1% | $ 6,073 | 1.6% | $ 386,875 | 100.0% |
| Production and intermediate-term | 392,106 | 94.7% | 15,334 | 3.7% | 6,481 | 1.6% | 413,921 | 100.0% |
| Agribusiness | 204,498 | 99.5% | -- | -- | 1,078 | 0.5% | 205,576 | 100.0% |
| Other | 107,816 | 98.1% | 769 | 0.7% | 1,281 | 1.2% | 109,866 | 100.0% |
| Total | $ 1,073,240 | 96.2% | $ 28,085 | 2.5% | $ 14,913 | 1.3% | $ 1,116,238 | 100.0% |

Note: Accruing loans include accrued interest receivable.

**Aging Analysis of Loans**

| (in thousands)<br>**As of December 31, 2019** | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | **$ 1,815** | **$ --** | **$ 1,815** | **$ 452,995** | **$ 454,810** | **$ --** |
| Production and intermediate-term | **1,872** | **767** | **2,639** | **408,152** | **410,791** | **151** |
| Agribusiness | **--** | **--** | **--** | **263,791** | **263,791** | **--** |
| Other | **--** | **--** | **--** | **134,608** | **134,608** | **--** |
| Total | **$ 3,687** | **$ 767** | **$ 4,454** | **$ 1,259,546** | **$ 1,264,000** | **$ 151** |

| As of December 31, 2018 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 392 | $ 334 | $ 726 | $ 413,941 | $ 414,667 | $ -- |
| Production and intermediate-term | 369 | 183 | 552 | 410,213 | 410,765 | -- |
| Agribusiness | -- | -- | -- | 221,326 | 221,326 | -- |
| Other | -- | -- | -- | 121,512 | 121,512 | -- |
| Total | $ 761 | $ 517 | $ 1,278 | $ 1,166,992 | $ 1,168,270 | $ -- |

| As of December 31, 2017 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total | Accruing Loans 90 Days or More Past Due |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 2,599 | $ -- | $ 2,599 | $ 384,276 | $ 386,875 | $ -- |
| Production and intermediate-term | 2,795 | 1,449 | 4,244 | 409,677 | 413,921 | 281 |
| Agribusiness | -- | -- | -- | 205,576 | 205,576 | -- |
| Other | -- | -- | -- | 109,866 | 109,866 | -- |
| Total | $ 5,394 | $ 1,449 | $ 6,843 | $ 1,109,395 | $ 1,116,238 | $ 281 |

Note: Accruing loans include accrued interest receivable.

## Risk Loans

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

**Risk Loan Information**

| (in thousands)<br>As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Nonaccrual loans: | | | |
| Current as to principal and interest | **$ 1,484** | $ 1,987 | $ 244 |
| Past due | **1,083** | 542 | 1,207 |
| Total nonaccrual loans | **2,567** | 2,529 | 1,451 |
| Accruing restructured loans | **--** | -- | 7 |
| Accruing loans 90 days or more past due | **151** | -- | 281 |
| Total risk loans | **$ 2,718** | $ 2,529 | $ 1,739 |
| Volume with specific allowance | **$ 1,189** | $ 1,518 | $ 1,429 |
| Volume without specific allowance | **1,529** | 1,011 | 310 |
| Total risk loans | **$ 2,718** | $ 2,529 | $ 1,739 |
| Total specific allowance | **$ 423** | $ 522 | $ 249 |

| For the year ended December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Income on accrual risk loans | **$ 14** | $ 73 | $ 43 |
| Income on nonaccrual loans | **117** | 324 | 229 |
| Total income on risk loans | **$ 131** | $ 397 | $ 272 |
| Average risk loans | **$ 3,070** | $ 3,477 | $ 2,030 |

Note: Accruing loans include accrued interest receivable.

**Nonaccrual Loans by Loan Type**

| (in thousands)<br>As of December 31 | 2019 | 2018 | 2017 |
|---|---|---|---|
| Real estate mortgage | $ **558** | $ 438 | $ 17 |
| Production and intermediate-term | **1,300** | 628 | 1,434 |
| Agribusiness | **5** | 679 | -- |
| Other | **704** | 784 | -- |
| Total | $ **2,567** | $ 2,529 | $ 1,451 |

**Additional Impaired Loan Information by Loan Type**

| | As of December 31, 2019 | | | For the year ended December 31, 2019 | |
|---|---|---|---|---|---|
| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | |
| Real estate mortgage | $ -- | $ -- | $ -- | $ -- | $ -- |
| Production and intermediate-term | 480 | 464 | 161 | 420 | -- |
| Agribusiness | 5 | 5 | 5 | 422 | -- |
| Other | 704 | 800 | 257 | 764 | -- |
| Total | $ 1,189 | $ 1,269 | $ 423 | $ 1,606 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 558 | $ 557 | $ -- | $ 614 | $ 69 |
| Production and intermediate-term | 971 | 1,012 | -- | 850 | 62 |
| Agribusiness | -- | -- | -- | -- | -- |
| Other | -- | -- | -- | -- | -- |
| Total | $ 1,529 | $ 1,569 | $ -- | $ 1,464 | $ 131 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 558 | $ 557 | $ -- | $ 614 | $ 69 |
| Production and intermediate-term | 1,451 | 1,476 | 161 | 1,270 | 62 |
| Agribusiness | 5 | 5 | 5 | 422 | -- |
| Other | 704 | 800 | 257 | 764 | -- |
| Total | $ 2,718 | $ 2,838 | $ 423 | $ 3,070 | $ 131 |

| | As of December 31, 2018 | | | For the year ended December 31, 2018 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | |
| Real estate mortgage | $ -- | $ -- | $ -- | $ -- | $ -- |
| Production and intermediate-term | 55 | 52 | 54 | 166 | -- |
| Agribusiness | 679 | 685 | 212 | 86 | -- |
| Other | 784 | 826 | 256 | 637 | -- |
| Total | $ 1,518 | $ 1,563 | $ 522 | $ 889 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 438 | $ 414 | $ -- | $ 842 | $ 79 |
| Production and intermediate-term | 573 | 627 | -- | 1,746 | 111 |
| Agribusiness | -- | -- | -- | -- | 207 |
| Other | -- | -- | -- | -- | -- |
| Total | $ 1,011 | $ 1,041 | $ -- | $ 2,588 | $ 397 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 438 | $ 414 | $ -- | $ 842 | $ 79 |
| Production and intermediate-term | 628 | 679 | 54 | 1,912 | 111 |
| Agribusiness | 679 | 685 | 212 | 86 | 207 |
| Other | 784 | 826 | 256 | 637 | -- |
| Total | $ 2,529 | $ 2,604 | $ 522 | $ 3,477 | $ 397 |

| | As of December 31, 2017 | | | For the year ended December 31, 2017 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | | |
| Real estate mortgage | $ -- | $ -- | $ -- | $ -- | $ -- |
| Production and intermediate-term | 1,429 | 1,387 | 249 | 1,340 | -- |
| Agribusiness | -- | -- | -- | -- | -- |
| Other | -- | -- | -- | -- | -- |
| Total | $ 1,429 | $ 1,387 | $ 249 | $ 1,340 | $ -- |
| Impaired loans with no related allowance for loan losses: | | | | | |
| Real estate mortgage | $ 17 | $ 17 | $ -- | $ 273 | $ 56 |
| Production and intermediate-term | 293 | 910 | -- | 275 | 206 |
| Agribusiness | -- | -- | -- | -- | -- |
| Other | -- | -- | -- | 142 | 10 |
| Total | $ 310 | $ 927 | $ -- | $ 690 | $ 272 |
| Total impaired loans: | | | | | |
| Real estate mortgage | $ 17 | $ 17 | $ -- | $ 273 | $ 56 |
| Production and intermediate-term | 1,722 | 2,297 | 249 | 1,615 | 206 |
| Agribusiness | -- | -- | -- | -- | -- |
| Other | -- | -- | -- | 142 | 10 |
| Total | $ 1,739 | $ 2,314 | $ 249 | $ 2,030 | $ 272 |

The recorded investment in the loan 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.

Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were classified as risk loans at December 31, 2019.

**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.

We completed TDRs of certain production and intermediate-term loans during the years ended December 31, 2019, 2018, and 2017. Our recorded investment in these loans just prior to restructuring was $19 thousand, $28 thousand, and $90 thousand during the years ended December 31, 2019, 2018, and 2017, respectively. The recorded investment in the loan 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 type of modification was interest compromise.

We had TDRs in the production and intermediate-term loan category of $4 thousand, and $20 thousand that defaulted during the years ended December 31, 2018, and 2017, respectively in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the year ended December 31, 2019, in which the modification was within twelve months of the respective reporting period.

**TDRs Outstanding**

| (in thousands)<br>As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Accrual status: | | | |
| Real estate mortgage | **$ --** | $ -- | $ -- |
| Production and intermediate-term | **--** | -- | 7 |
| Total TDRs in accrual status | **$ --** | $ -- | $ 7 |
| Nonaccrual status: | | | |
| Real estate mortgage | **$ --** | $ -- | $ 17 |
| Production and intermediate-term | **13** | -- | 105 |
| Total TDRs in nonaccrual status | **$ 13** | $ -- | $ 122 |
| Total TDRs: | | | |
| Real estate mortgage | **$ --** | $ -- | $ 17 |
| Production and intermediate-term | **13** | -- | 112 |
| Total TDRs | **$ 13** | $ -- | $ 129 |

There were no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2019.

## Allowance for Loan Losses

**Changes in Allowance for Loan Losses**

| (in thousands)<br>For the year ended December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Balance at beginning of year | **$ 3,225** | $ 2,992 | $ 2,769 |
| Provision for loan losses | **471** | 393 | 367 |
| Loan recoveries | **--** | 120 | 131 |
| Loan charge-offs | **(203)** | (280) | (275) |
| Balance at end of year | **$ 3,493** | $ 3,225 | $ 2,992 |

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

| (in thousands) | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2018 | **$ 413** | **$ 1,400** | **$ 818** | **$ 594** | **$ 3,225** |
| (Reversal of) provision for loan losses | **(44)** | **335** | **186** | **(6)** | **471** |
| Loan charge-offs | **--** | **(5)** | **(198)** | **--** | **(203)** |
| Balance as of December 31, 2019 | **$ 369** | **$ 1,730** | **$ 806** | **$ 588** | **$ 3,493** |
| Ending balance: individually evaluated for impairment | **$ --** | **$ 161** | **$ 5** | **$ 257** | **$ 423** |
| Ending balance: collectively evaluated for impairment | **$ 369** | **$ 1,569** | **$ 801** | **$ 331** | **$ 3,070** |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2019 | **$ 454,810** | **$ 410,791** | **$ 263,791** | **$ 134,608** | **$ 1,264,000** |
| Ending balance: individually evaluated for impairment | **$ 558** | **$ 1,451** | **$ 5** | **$ 704** | **$ 2,718** |
| Ending balance: collectively evaluated for impairment | **$ 454,252** | **$ 409,340** | **$ 263,786** | **$ 133,904** | **$ 1,261,282** |

| | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2017 | $ 291 | $ 1,606 | $ 602 | $ 493 | $ 2,992 |
| Provision for (reversal of) loan losses | 122 | (46) | 216 | 101 | 393 |
| Loan recoveries | -- | 120 | -- | -- | 120 |
| Loan charge-offs | -- | (280) | -- | -- | (280) |
| Balance as of December 31, 2018 | $ 413 | $ 1,400 | $ 818 | $ 594 | $ 3,225 |
| Ending balance: individually evaluated for impairment | $ -- | $ 54 | $ 212 | $ 256 | $ 522 |
| Ending balance: collectively evaluated for impairment | $ 413 | $ 1,346 | $ 606 | $ 338 | $ 2,703 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2018 | $ 414,667 | $ 410,765 | $ 221,326 | $ 121,512 | $ 1,168,270 |
| Ending balance: individually evaluated for impairment | $ 438 | $ 628 | $ 679 | $ 784 | $ 2,529 |
| Ending balance: collectively evaluated for impairment | $ 414,229 | $ 410,137 | $ 220,647 | $ 120,728 | $ 1,165,741 |

| | Real Estate Mortgage | Production and Intermediate-Term | Agribusiness | Other | Total |
|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | |
| Balance as of December 31, 2016 | $ 229 | $ 1,331 | $ 603 | $ 606 | $ 2,769 |
| Provision for (reversal of) loan losses | 62 | 419 | (1) | (113) | 367 |
| Loan recoveries | -- | 131 | -- | -- | 131 |
| Loan charge-offs | -- | (275) | -- | -- | (275) |
| Balance as of December 31, 2017 | $ 291 | $ 1,606 | $ 602 | $ 493 | $ 2,992 |
| Ending balance: individually evaluated for impairment | $ -- | $ 249 | $ -- | $ -- | $ 249 |
| Ending balance: collectively evaluated for impairment | $ 291 | $ 1,357 | $ 602 | $ 493 | $ 2,743 |
| Recorded investment in loans outstanding: | | | | | |
| Ending balance as of December 31, 2017 | $ 386,875 | $ 413,921 | $ 205,576 | $ 109,866 | $ 1,116,238 |
| Ending balance: individually evaluated for impairment | $ 17 | $ 1,722 | $ -- | $ -- | $ 1,739 |
| Ending balance: collectively evaluated for impairment | $ 386,858 | $ 412,199 | $ 205,576 | $ 109,866 | $ 1,114,499 |

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

## NOTE 4: INVESTMENT IN AGRIBANK

During 2019, we were required by AgriBank to maintain an investment equal to 2.25% 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. Effective January 1, 2020, the required rate was increased to 2.50% with similar growth rate requirements as 2019.

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

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

## NOTE 5: NOTE PAYABLE TO AGRIBANK

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

**Note Payable Information**

(dollars in thousands)

| As of December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Line of credit | **$ 1,400,000** | $ 1,400,000 | $ 1,400,000 |
| Outstanding principal under the line of credit | **1,016,564** | 940,592 | 903,472 |
| Interest rate | **2.4%** | 2.7% | 1.9% |

Our note payable matures July 31, 2022, at which time the note will be renegotiated.

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, 2019, and throughout the year, we were not declared in default under any GFA covenants or provisions.

In addition, with approval from AgriBank, on July 24, 2006, we entered into a note agreement with CoBank, ACB (CoBank), a System bank, to obtain funding in the amount not to exceed $20.0 million in connection with specific CoBank related transactions. The interest rate on such indebtedness will be established at the time of the related transactions. There was no outstanding principal at December 31, 2019, 2018, and 2017.

## NOTE 6: 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 purchase of one participation certificate is required of all customers to whom a lease is issued and of all non-stockholder customers who purchase crop insurance. 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 | **2019** | 2018 | 2017 | Regulatory Minimums | Capital Conservation Buffer | Total |
|---|---|---|---|---|---|---|
| Risk-adjusted: | | | | | | |
| Common equity tier 1 ratio | **17.5%** | 16.7% | 16.1% | 4.5% | 2.5%* | 7.0% |
| Tier 1 capital ratio | **17.5%** | 16.7% | 16.1% | 6.0% | 2.5%* | 8.5% |
| Total capital ratio | **17.8%** | 16.9% | 16.4% | 8.0% | 2.5%* | 10.5% |
| Permanent capital ratio | **17.6%** | 16.7% | 16.2% | 7.0% | N/A | 7.0% |
| Non-risk-adjusted: | | | | | | |
| Tier 1 leverage ratio | **19.6%** | 19.0% | 18.7% | 4.0% | 1.0% | 5.0% |
| Unallocated retained earnings and equivalents leverage ratio | **20.6%** | 19.6% | 19.1% | 1.5% | N/A | 1.5% |

*The 2.5% capital conservation buffer over risk-adjusted ratio minimums was phased in over three years under the FCA capital requirements. The phase in period ended December 31, 2019.

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 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.

The regulatory capital requirements allow for allotment agreements for only the permanent capital ratio and, as such, any stock in excess of our AgriBank required investment was not included in the common equity tier 1, tier 1 capital, total capital, or leverage ratios. We had no allocated excess stock at December 31, 2019, 2018, or 2017.

### 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 | **2019** | 2018 | 2017 |
| Class B common stock (at-risk) | **418,399** | 430,841 | 454,212 |
| Participation certificates (at-risk) | **274** | 272 | 271 |

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

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

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2019, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, pro rata to holders of Class F preferred stock,
- second, pro rata to holders of Class B, C, D, and E common stock and participation certificates,
- third, pro rata by year of issuance to holders of qualified patronage allocation certificates, in order of year of issuance,
- fourth, pro rata by year of issuance to holders of nonqualified patronage allocation certificates, in order of year of issuance, and,
- lastly, to patrons based on their patronage history.

We have not issued any patronage allocation certificates.

In the event of impairment, losses will be absorbed in the following order:

- first, pro rata by year of issuance to allocated surplus in the form of nonqualified written notices of allocation, in reverse order of year of issuance,
- second pro rata by year of issuance to allocated surplus in the form of qualified written notices of allocation, in reverse order of year of issuance,
- third, pro rata to all classes of common stock and participation certificates, and
- finally, pro rata to any preferred stock.

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

### Patronage Distributions

We accrued patronage distributions of $4.5 million, $2.4 million, and $2.6 million at December 31, 2019, 2018, and 2017, 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.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. Additionally, patronage distributions may be restricted or prohibited without prior FCA approval if capital ratios fall below the total requirements, including the buffer amounts.

## NOTE 7: INCOME TAXES

The Tax Cuts and Jobs Act (the Act) was enacted in December of 2017. This Act contained various tax law changes, including a federal statutory tax rate change to 21% from 34%, effective January 1, 2018. Because deferred tax assets and liabilities are expected to be recognized in the Association’s tax return in a future year, when the new statutory tax rate would be applicable, the deferred tax assets and liabilities as of December 31, 2017, were valued using a blended federal/state effective tax rate based on the new federal statutory tax rate. The effect of this revaluation was recognized in our provision for (benefit from) income taxes for the year ended December 31, 2017.

## Provision for Income Taxes

**Provision for Income Taxes**

(dollars in thousands)

| For the year ended December 31 | 2019 | 2018 | 2017 |
|---|---|---|---|
| Current: | | | |
| Federal | **$ 99** | $ 676 | $ 885 |
| State | **62** | 148 | 127 |
| Total current | **$ 161** | $ 824 | $ 1,012 |
| Deferred: | | | |
| Federal | **$ 91** | $ (100) | $ (87) |
| State | **20** | (21) | 6 |
| Total deferred | **111** | (121) | (81) |
| Provision for income taxes | **$ 272** | $ 703 | $ 931 |
| Effective tax rate | **1.0%** | 2.7% | 3.9% |

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

(in thousands)

| For the year ended December 31 | 2019 | 2018 | 2017 |
|---|---|---|---|
| Federal tax at statutory rates | **$ 5,673** | $ 5,525 | $ 8,080 |
| State tax, net | **37** | 98 | 81 |
| Patronage distributions | **(945)** | (504) | (884) |
| Effect of non-taxable entity | **(4,500)** | (4,418) | (6,222) |
| Change in statutory tax rates due to the Tax Cuts and Jobs Act | **--** | -- | (137) |
| Other | **7** | 2 | 13 |
| Provision for income taxes | **$ 272** | $ 703 | $ 931 |

## 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 | 2019 | 2018 | 2017 |
|---|---|---|---|
| Allowance for loan losses | **$ 422** | $ 305 | $ 281 |
| Postretirement benefit accrual | **149** | 157 | 166 |
| Accrued incentive | **247** | 245 | 221 |
| Leasing related, net | **--** | (4) | (6) |
| Accrued patronage income not received | **(127)** | -- | (151) |
| AgriBank 2002 allocated stock | **(215)** | (215) | (215) |
| Accrued pension asset | **(654)** | (561) | (478) |
| Depreciation | **(89)** | (79) | (96) |
| Other assets | **9** | 5 | 10 |
| Other liabilities | **(250)** | (250) | (250) |
| Total deferred tax liabilities | **(508)** | (397) | (518) |
| Gross deferred tax assets | **$ 827** | $ 712 | $ 678 |
| Gross deferred tax liabilities | **$ (1,335)** | $ (1,109) | $ (1,196) |

A valuation allowance for the deferred tax assets was not necessary at December 31, 2019, 2018, or 2017.

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 $9.0 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $207.3 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various United States taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2019. In addition, we believe we are no longer subject to income tax examinations for years prior to 2016.

## NOTE 8: EMPLOYEE BENEFIT PLANS

### Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the AgriBank 2019 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 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Unfunded liability | **$ 220,794** | $ 274,450 | $ 352,516 |
| Projected benefit obligation | **1,421,126** | 1,272,063 | 1,371,013 |
| Fair value of plan assets | **1,200,332** | 997,613 | 1,018,497 |
| Accumulated benefit obligation | **1,298,942** | 1,125,682 | 1,184,550 |

| For the year ended December 31 | **2019** | 2018 | 2017 |
|---|---|---|---|
| Total plan expense | **$ 36,636** | $ 51,900 | $ 44,730 |
| Our allocated share of plan expenses | **678** | 980 | 814 |
| Contributions by participating employers | **90,000** | 90,000 | 90,000 |
| Our allocated share of contributions | **1,709** | 1,689 | 1,680 |

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 $68.8 million in 2019. 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 2020 is $90.0 million. Our allocated share of these pension contributions is expected to be $1.7 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 | | 2019 | | 2018 | | 2017 |
|---|---|---|---|---|---|---|
| Our unfunded liability | **$** | **2,423** | $ | 2,153 | $ | 2,134 |

| For the year ended December 31 | | 2019 | | 2018 | | 2017 |
|---|---|---|---|---|---|---|
| Our allocated share of plan expenses | **$** | **186** | $ | 212 | $ | 224 |

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 recognition of the unfunded liability includes the impact of prior service cost and unamortized gain/loss. The increase in the liability was offset against accumulated other comprehensive (loss) income and had no impact to net income. 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, however we had no cash contributions during the years ended December 31, 2019, 2018, and 2017. 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.

**Retiree Medical Plan Information**

(in thousands)

| For the year ended December 31 | | 2019 | | 2018 | | 2017 |
|---|---|---|---|---|---|---|
| Postretirement benefit (income) expense | **$** | **(15)** | $ | (20) | $ | 18 |
| Our cash contributions | | **40** | | 39 | | 39 |

The 2019 and 2018 postretirement benefit income is due to an actuarial gain. Postretirement benefit (income) expense is included in “Salaries and employee benefits” in the Consolidated Statements of Comprehensive Income. Our cash contributions are 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 $592 thousand, $528 thousand, and $506 thousand in 2019, 2018, and 2017, respectively. These expenses were equal to our cash contributions for each year.

## NOTE 9: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2019, involved more than a normal risk of collectability.

**Related Party Loans Information**

(in thousands)

| As of December 31 | | 2019 | | 2018 | | 2017 |
|---|---|---|---|---|---|---|
| Total related party loans | **$** | **8,589** | $ | 9,585 | $ | 9,178 |

| For the year ended December 31 | | 2019 | | 2018 | | 2017 |
|---|---|---|---|---|---|---|
| Advances to related parties | **$** | **9,206** | $ | 7,906 | $ | 9,364 |
| Repayments by related parties | | **12,562** | | 12,049 | | 11,225 |

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 year end.

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

Total patronage received from AgriBank was $6.8 million, $5.3 million, and $4.8 million in 2019, 2018, and 2017, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2018 and 2017 was paid in cash.

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

We purchase various services from AgriBank and SunStream Business Services (SunStream), a division of AgriBank. The services include certain financial and retail systems, financial reporting services, tax reporting services, technology services, and insurance services. The total cost of services we purchased from AgriBank was $583 thousand, $594 thousand, $536 thousand in 2019, 2018, and 2017, respectively. In January 2020, the FCA provided regulatory approval for the formation of a separate service entity, SunStream. Subsequent to the formation of SunStream, effective April 1, 2020, we will be a partial owner and continue to purchase services from SunStream.

We also purchase human resource information systems, and benefit, payroll, and workforce management services from Farm Credit Foundations (Foundations). As of December 31, 2019, 2018, and 2017, our investment in Foundations was $17 thousand. The total cost of services purchased from Foundations was $131 thousand, $110 thousand, and $112 thousand in 2019, 2018, and 2017, respectively.

## NOTE 10: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2019, we had commitments to extend credit and unexercised commitments related to standby letters of credit $370.6 million. Additionally, we had $5.3 million of issued standby letters of credit as of December 31, 2019.

Commitments to extend credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments to extend 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 will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements. 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.

## NOTE 11: FAIR VALUE MEASUREMENTS

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

We did not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2019, 2018, or 2017.

### 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, 2019** | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | **$ --** | **$ --** | **$ 804** | **$ 804** |

| As of December 31, 2018 | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | $ -- | $ -- | $ 1,046 | $ 1,046 |

| As of December 31, 2017 | Fair Value Measurement Using | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Impaired loans | $ -- | $ -- | $ 1,239 | $ 1,239 |

### Valuation Techniques

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

## NOTE 12: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 6, 2020, 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 2019 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

# DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

*Farm Credit Services of Mandan, ACA*

*(Unaudited)*

### Description of Business

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

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

### Description of Property

**Property Information**

| Location | Description | Usage |
|---|---|---|
| Beulah | Owned by PCA | Branch |
| Bowman | Owned by PCA | Branch |
| Carson | Owned by PCA | Branch |
| Dickinson | Owned by FLCA | Branch |
| Mandan | Owned by PCA | Headquarters/Branch |
| Mott | Owned by PCA | Branch |
| Napoleon | Jointly Leased | Satellite Office |
| Washburn | Owned by FLCA | Branch |
| Wishek | Owned by PCA | Branch |

### Legal Proceedings

Information regarding legal proceedings is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2019.

### Additional Regulatory Capital Disclosure

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

| As of December 31 | 2014 | 2013 | 2012 |
|---|---|---|---|
| Permanent capital ratio | 15.0% | 14.4% | 14.9% |
| Total surplus ratio | 14.8% | 14.2% | 14.6% |
| Core surplus ratio | 14.8% | 14.2% | 14.6% |

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

### Description of Capital Structure

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

### Description of Liabilities

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

### Selected Financial Data

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

### Management’s Discussion and Analysis

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

## Board of Directors

**Board of Directors as of December 31, 2019, including business experience during the last five years**

| Name | Term | Principal occupation and other business affiliations |
|---|---|---|
| **Michael Schaaf** | June 2016-2020 | **Principal Occupation:** |
| Chairperson of the Board | | Self-employed grain farmer and livestock rancher |
| Service Began: June 2011 | | |
| **James Vander Vorst** | June 2018-2022 | **Principal Occupation:** |
| Director | | Self-employed grain and livestock farmer |
| | | **Other Affiliations:** |
| | | Director: Emmons County Soil Conservation Board |
| Service Began: June 2004 | | Vice Chairman: State Line Water Cooperative, a rural water service provider |
| **Carson Kouba** | June 2017-2021 | **Principal Occupation:** |
| Director | | Self-employed grain farmer and equipment repair |
| | | **Other Affiliations:** |
| | | 2nd Vice Chairman: North Dakota Crop Improvement & Seed Association |
| | | President of Board: Hettinger County Farm Bureau |
| Service Began: June 2017 | | Board Member: North Dakota Farm Credit Council |
| **Dawn Martin** | June 2017-2021 | **Principal Occupation:** |
| Director | | District Manager at Mercer County Soil Conservation District |
| | | Self-employed livestock farmer |
| | | **Other Affiliations:** |
| | | Director: American Quarter Horse Association |
| Service Began: June 2017 | | Secretary: Mercer County Farmers Union Board |
| **Becky Hansen** | June 2016-2020 | **Principal Occupation:** |
| Director | | Vice President of Finance at SMP Health System, a healthcare system in North Dakota |
| | | Former Healthcare Finance Consultant at McKenzie County Healthcare Systems, Inc. |
| | | Former CEO at Southwest Healthcare Services, a healthcare services company |
| | | Self-employed small grain and livestock farmer |
| | | **Other Affiliations:** |
| Service Began: June 2009 | | Director: Praireland Home Care |
| **Clair Hauge** | June 2019-2023 | **Principal Occupation:** |
| Vice Chairperson | | President: Blue Hill Ranch Feedlot Inc, a cattle feeding operation |
| | | Director: Blue Hill Ranch GP, a farming and ranching operation |
| | | Self-employed grain and livestock farming operation |
| | | **Other Affiliations:** |
| Service Began: June 2015 | | Treasurer: Grant County 4-H Council, a government agency for youth development |
| **Michael Schneider** | June 2017-2021 | **Principal Occupation:** |
| Appointed Director | | Retired Human Resources Lead with engineering firm |
| Service Began: June 2017 | | |
| **Cary Moch** | June 2019-2023 | **Principal Occupation:** |
| Director | | Self-employed grain and livestock farmer |
| | | **Other Affiliations:** |
| Service Began: June 2008 | | Treasurer: Campbell Township, a local government agency |
| **Allen Roshau** | June 2018-2022 | **Principal Occupation:** |
| Director | | Self-employed farmer/rancher |
| | | Brand Inspector: North Dakota Stockmen's Association |
| | | **Other Affiliations:** |
| | | Director: AgriBank District Farm Credit Council |
| Service Began: June 2003 | | Director: North Dakota Farm Credit Council |
| **Sheldon Wolf** | July 2019-2023 | **Principal Occupation:** |
| Appointed Director | | Former Health IT Director for State of North Dakota |
| | | Senior Consultant for Healthcare Solutions |
| | | **Other Affiliations:** |
| Service Began: July 2019 | | Vice Chairperson: Mandan School Board |

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings, or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors adopted a rate of

$600 per day, with half day increments used for conference calls or half day meetings. The Board Chairperson and Vice Chairperson also receive an annual retainer fee in the amounts of $2,400 and $600, respectively, which is paid out quarterly. All directors serve on both the Audit Committee and Compensation Committee and do not receive compensation for serving on these committees. However, effective December 20, 2019, the Board of Directors voted to move from including the full board on the Audit Committee to four members. Audit Committee members as of December 20, 2019 were Sheldon Wolf, Chairperson, Cary Moch, Vice Chairperson, Becky Hansen, and Michael Schaaf.

Information regarding compensation paid to each director who served during 2019 follows:

| | Number of Days Served | | |
|---|---|---|---|
| Name | Board Meetings | Other Official Activities | Total Compensation Paid in 2019 |
| Becky Hansen | 11.0 | 8.5 | $ 11,700 |
| Clair Hauge | 13.0 | 11.5 | 15,050 |
| Carson Kouba | 13.0 | 16.0 | 17,400 |
| Dawn Martin | 12.0 | 11.0 | 13,800 |
| Cary Moch | 13.0 | 12.0 | 15,000 |
| Allen Roshau | 11.0 | 27.5 | 23,100 |
| Michael J. Schaaf | 13.0 | 15.5 | 18,750 |
| Michael Schneider | 12.0 | 15.5 | 16,500 |
| Fred Stern* | 5.0 | 12.5 | 10,500 |
| James Vander Vorst | 12.0 | 7.5 | 12,700 |
| Sheldon Wolf** | 8.0 | 4.0 | 7,200 |
| Total | | | 161,700 |

*Term ended in 2019
**Newly appointed in 2019

## Senior Officers

**Senior Officers as of December 31, 2019, including business experience during the last five years**

| Name and Position | Business experience and other business affiliations |
|---|---|
| **Aaron Vetter**<br>Chief Executive Officer | **Business experience:**<br>President/Chief Executive Officer from April 2015 to present<br>Executive Vice President from July 2014 to March 2015<br>**Other business interests:**<br>Board member of AgCountry Commercial Finance Group<br>Vice Chariman/Board member of Menoken Public School<br>Treasure/Director of The New Longford Center, a non-profit retreat center<br>Trustee of St. Hildegard Church |
| **Stuart Ternes**<br>Vice President - Customer Operations/Chief Credit Officer | **Business experience:**<br>Vice President-Customer Operations/Chief Credit Officer from July 2016 to present.<br>Assistant Vice President-Credit from September 1996 to June 2016 |
| **Sandy Nagel**<br>Vice President - Finance, Chief Financial Officer | **Business experience:**<br>Vice President Finance - Chief Financial Officer December 2018 to present<br>Vice President - Corporate Finance from January 2013 to November 2018 |
| **Kathleen Wiese**<br>Vice President - Human Resources | **Business experience:**<br>Vice President - Human Resources from October 2013 to present<br>**Other business interests:**<br>Director at Large of Capital Farmers Market |
| **Thomas Williams III**<br>Vice President - Operations/Chief Risk Officer | **Business experience:**<br>Vice President - Operations/Chief Risk Officer from August 2019 to present<br>Assistant Vice President - Operations from August 2016 to July 2019<br>Senior Loan Officer/Branch Manager April 2008 to July 2016 |

## Senior Officer Compensation

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

**Elements of Compensation:** The CEO, senior officers, and highly compensated individuals are compensated with a mix of direct cash and incentives as well as retirement plans generally available to all employees. They are compensated according to our Association compensation plan which is reviewed and approved annually by our Board of Directors. Base salary and short-term incentives are intended to be competitive with annual compensation for comparable positions at peer organizations.

**Base Salary:** The CEO, senior officer, and highly compensated individual's base salaries reflect the individual's experience and level of responsibility. The CEO's base salary is subject to review and approval by the Compensation Committee of our Board of Directors and is subject to adjustment based on changes in responsibilities or competitive market conditions. Other senior officers' and highly compensated individual's compensation is determined by our Human Resources Committee, which is made up of selected members of senior management, and is subject to adjustment based on changes in responsibilities or competitive market conditions.

**Short-term Incentives:** The CEO, senior officer, and highly compensated individual's incentives are paid annually based on performance criteria established by our Board of Directors. The criteria related to the overall association performance include return on assets, loan volume, net operating rate, credit quality and portfolio risk management. Additionally, performance criteria related to personal performance include attainment of personal objectives and performance ratings. Individual incentives are weighted towards overall association performance differently depending on position held by the individual. Generally, the higher level of responsibilities results in a higher level of compensation based on association performance rather than individual performance. We calculate the incentives after the end of the plan year (the plan year is October 1 – September 30). We pay out the incentives within 90 days of calendar year end.

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

**Other Components of Compensation:** Additionally, compensation associated with group term life insurance premiums, company owned vehciles, disability insurance premiums, or other taxable reimbursements may be made available to the CEO, senior officers and highly compensated individuals based on our current benefit plan.

**Compensation to the CEO, Senior Officers, and Highly Compensated Individuals**

| (in thousands)<br>Name | Year | Salary | Bonus | Deferred/<br>Perquisites | Other | Total |
|---|---|---|---|---|---|---|
| Aaron Vetter, CEO | **2019** | **$ 284** | **$ 167** | **$ 7** | **$ 102** | **$ 560** |
| Aaron Vetter, CEO | 2018 | 267 | 148 | 1 | 64 | 480 |
| Aaron Vetter, CEO | 2017 | 254 | 136 | 1 | 74 | 465 |
| Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO | | | | | | |
| Five* | **2019** | **$ 683** | **$ 285** | **$ 6** | **$ 1,666** | **$ 2,640** |
| Four | 2018 | 545 | 206 | 6 | 227 | 984 |
| Four | 2017 | 526 | 198 | 5 | 886 | 1,615 |

*Includes full year compensation for 1 individual who became a Senior Officer in August, 2019.

Members may request information on the compensation to the individuals included in the preceding table during 2019.

The composition of senior officers may change during the year based on business needs of the association. The composition of highly compensated employees can change due to incentives available to employees as described above.

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

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 8 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.
- Amounts paid related to senior officer retirement.

Any dollar value of tax reimbursement provided to the CEO, senior officers, or highly compensated individuals is included in the column for which the reimbursement was provided.

The value of the pension benefits increased from December 31, 2018, to December 31, 2019, 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, Senior Officers, and Highly Compensated Individuals**

| (dollars in thousands)<br>**2019**<br>Name | Plan | Years of Credited Service | Present Value of Accumulated Benefits | Payments Made During the Reporting Period |
|---|---|---|---|---|
| Aaron Vetter, CEO | AgriBank District Retirement Plan | **20.6** | **$ 257** | **$ --** |
| | AgriBank District Pension Restoration Plan | **20.6** | **74** | **--** |
| Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO | | | | |
| Five | AgriBank District Retirement Plan | **31.4** | **$ 6,263** | **$ --** |

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

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 9 to the Consolidated Financial Statements in this Annual Report.

## Travel, Subsistence, and Other Related Expenses

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

Post Office Box 5001
Mandan, ND 58554-5501
(701) 663-6487
www.farmcreditmandan.com

The total directors' travel, subsistence, and other related expenses were $99 thousand, $93 thousand, and $104 thousand in 2019, 2018, and 2017, 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, 2020, or at any time during 2019.

## 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 2019 were $63 thousand. Our engagement letter commits to reimbursing the external auditor for reasonable out-of-pocket expenses as incurred for travel.

## Financial Statements

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

## Young, Beginning, and Small Farmers and Ranchers

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

# YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

*Farm Credit Services of Mandan, ACA*
*(Unaudited)*

We have specific programs in place to serve the credit and related services needs of young, beginning, and small (YBS) farmers and ranchers in our territory. The definitions of YBS as developed by the Farm Credit Administration (FCA) follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or 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, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

**Mission Statement:**

To promote the success of our customers (creditworthy young, beginning, and small farmers and ranchers) by providing the best financial services in our agricultural communities, today and tomorrow.

**Policy to Complete Mission Statement:**

We develop and execute an annual business plan to attract qualified YBS farmers. This plan will target and market to YBS farmers through a variety of credit and outreach programs in an effort to help the next generation of farmers succeed. We are further committed to supporting educational and developmental opportunities to this segment of farmers.

**2019 Business Environment:**

The demographics of the young, beginning, and small farmers in our territory were compiled from the 2017 USDA census data. Per the census data 12.6% of the farm population in our territory was identified as young, 22.3% was identified as beginning and 77.6% was identified as small farmers. At December 31, 2019, 24% of our loan customers were comprised of young farmers, 26% were comprised of beginning farmers and 52% were comprised of small farmers.

YBS goals were established for new loan volume and new loan customers for the marketing plan year of October 1, 2018 to September 30, 2019.

- Young Farmers: new loan volume goal of $10.0 million compared to actual new loan volume of $15.2 million
- Beginning Farmers: new loan volume goal of $10.0 million compared to actual new loan volume of $14.8 million
- Small Farmers: new loan volume goal of $12.0 million compared to actual new loan volume of $18.2 million
- Young Farmers: new loan customers goal of 100 compared to actual results of 96 customers
- Beginning Farmers: new loan customers goal of 100 compared to actual results of 90 customers
- Small Farmers: new loan customers goal of 150 compared to actual results of 134 customers

While the results by number fell short of the targets, they are reasonably close and notably improved from 2018. We continue to utilize USDA Farm Service Agency (FSA) guarantees, subordinations, and personal guarantees to help YBS farmers get established.

We also provide related services to the YBS segment of our portfolio. Plan year goals were established for hail insurance, multi-peril crop insurance, and ag accounting and tax services. Utilization of these services by customers defined as young ranged from 22% to 36%. Utilization of these services by customers defined as beginning ranged from 18% to 27%. Usage of ag accounting and tax services by young and beginning farmers were slightly below the targets set in 2019. Utilization of related services by small farmers ranged from 33% to 58%, exceeding all targets with the exception of ag accounting services. It is the goal of the association to continue to increase usage of each of these products in 2020.

We actively promote, sponsor and/or participate in events and activities to continue to educate young and beginning farmers in the industry of agriculture. The purpose of participating in these events and programs is to attract additional young and beginning farmers and ranchers and introduce them to the products and services that are available.

We have offered farm business management programs, and tax and records seminars to help young and beginning farmers in the areas of risk management. In addition, we sponsor four high school scholarships to area students interested in pursuing a career in agriculture. We also sponsor various youth activities and commodity organizations.

The objective of offering special loans and related service programs is to make a concerted and cooperative effort to finance YBS farmers and ranchers to the fullest extent of their creditworthiness. The programs are not intended to substitute credit for income of YBS farmers and ranchers who do not have the ability to generate adequate profits for repayment. Additionally, tax and ag accounting services will be promoted at a reduced cost to encourage young farmers and ranchers to purchase the services to better manage and monitor their operation. “New Roots” programs with reduced interest rates and modified underwriting standards are offered to young, beginning, and small farmers which include a real estate financing program, an operating loan program, and a term loan program, along with encouraging the use of FSA guarantees and subordinations. Portfolio limits have been established for some of these programs to minimize credit and profit risk exposure.

# FUNDS HELD PROGRAM

*Farm Credit Services of Mandan, ACA*
*(Unaudited)*

Note: The following information is provided to assure that all FCS of Mandan, ACA customers are familiar with the terms and conditions of our Funds Held Program. This program enables customers to earn interest on funds paid in advance of loan payment due dates or for later payment of other legitimate obligations.

The Association offers a Funds Held Program (Funds Held) that provides for customers to make advance payments on designated loans and other obligations. The following terms and conditions apply to all Funds Held unless the loan agreement, or related documents, between the Association and the customer provide for other limitations.

**Payment Application**

Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special prepayment of principal.

When a loan installment becomes due, monies in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

**Account Maximum**

The total of Funds Held balance may not exceed the unpaid balance of the related loan(s) for long-term mortgage loan(s). For short- and intermediate-term loans, the Association may accept Funds Held up to the amount of the borrower's outstanding line of credit or loan commitment.

**Interest Rate**

Interest will accrue on Funds Held at a simple interest rate that may be changed by the Association from time to time. The interest rate may never exceed the interest rate charged on the related loan. Interest rates, subject to the above limitations, are established by the Association's Asset Liability Management Committee and may change from month to month. Customers that are subject to IRS backup withholding under section 3406(a)(1)(c) of the Internal Revenue Code do not receive interest on Funds Held.

Current interest rates are reported on each of the loan statements mailed to customers.

**Withdrawals**

Funds in a Funds Held account may be available to be returned to borrowers, upon request, for an eligible loan purpose in lieu of increasing the borrower's loan. No more than 12 withdrawals may be made from a Funds Held account in any calendar year. The minimum amount that may be withdrawn at any one time is normally limited to the lesser of $500 or the balance remaining in the Funds Held account.

**Association Options**

In the event of default on any loans, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues their Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

**Uninsured Account**

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to regulations.

**Questions:** Please direct any questions regarding Funds Held to your local FCS representative

# FCS OF MANDAN EMPLOYEE AND BRANCH DIRECTORY

**Corporate Office**
1600 Old Red Trail, P.O. Box 5001
Mandan, ND 58554 (701) 663-6487

Aaron Vetter, Chief Executive Officer
Brent Berreth, System Administrator
Travis Berreth, Property Manager
Deitra Bina, Senior Accountant-Loan Operations
Carl Duchscher, Director, Association Reviews
Jamey Grossman, Director, Integrated Technology Services
Ryan Marthaller, System Administrator
Lauren McMillan, General Accountant
Therese Miller, Executive Assistant
Brittani Moser, Human Resources Generalist
Sandy Nagel, VP Finance / CFO
Jennifer Schiermeister, Senior Accountant-Corporate
Destri Schmidt, Loan Accountant
Kathleen Wiese, VP-Human Resources

**Operations Department**
Sam Arndorfer, AVP-Customer Operations
Kenny Bahm, AVP-Customer Operations
Pat Carlson, Loan Documentation Assistant
Eric Ehlis, AVP-Customer Operations
Benjamin Erickson, Chattel Appraiser
Lee Hutchinson AVP–Customer Operations
Marlys Landeis, Administrative Secretary
Ryan Norrell, General Counsel
Becky Peterson, Director of Marketing & Services
Sheila Ressler, Director of Appraisal
Aimee Scheck, Credit Services Coordinator
Briana Scheid, Qualified Evaluator
Carla Tausend, Director of Insurance Services
Stuart Ternes, VP-Customer Operations/Chief Credit Officer
Jill Trygg, Administrative Assistant
Thomas Williams III, VP-Operations/Chief Risk Officer
Rob Zander, Loan Documentation Associate

**Agribusiness Department**
Patty Berger, Trade Credit/Leasing Representative
David Buck, Credit Analyst-Agribusiness
Donovan Stober, Regional Manager-Agribusiness

**Financial Services Department**
(701) 663-8685 or (800) 660-1765
Jenna Burtch, Ag Accounting Specialist
Mary Hintz, Ag Accounting Specialist
Pam Geiger, Lead Tax Specialist
Amy Kraft, Ag Accounting Specialist
Janet Moch, Tax Specialist
Shania Murphy, Tax Specialist
Casey Norton, Tax Specialist
Kendra Privratsky, Tax Specialist
Joanie Schable, Financial Services Assistant
Rochel Wagner, Financial Services Associate

(Seasonal Employees)
Lois Guthmiller, Tax Assistant
Diane Mittelstedt, Tax Assistant
Barbara Reister, Tax Assistant
Tanya Tipler, Receptionist

**Beulah Branch**
213 Highway 49 North, P.O. Box 507
Beulah, ND 58523 (701) 873-5395 or (800) 510-5395
Kayleen Beauchamp, Customer Service Assistant
Alison DuBois, Insurance Representative
Steven Finsaas, Loan Officer/Office Manager
Elizabeth Lundstrom, Loan Officer
Mary Ochsner, Customer Service Assistant

**Bowman Branch**
107 Highway 12 West, P.O. Box 859
Bowman, ND 58623 (701) 523-5275 or (800) 581-5275
Cheyenne Daniel, Customer Service Assistant
Rita Goodfellow, Customer Service Assistant
Mandy Kvale, Loan Officer
Scott Lardy, Loan Officer/Office Manager
Bailee Murnion, Loan Officer
Sheridan Visser, Insurance Representative

**Carson Branch**
108 First Avenue East, P.O. Box 199
Carson, ND 58529 (701) 622-3297 or (800) 370-3297
Lucas Redmann, Loan Officer/Office Manager
Yvonne Seidler, Account Representative
Leigh Tibke, Customer Service Assistant

**Dickinson Branch**
1324 W. Villard Street
Dickinson, ND 58601 (701) 227-1207 or (800) 291-1207
Tyson Bren, Loan Officer
Elliott Ehlis, Senior Loan Officer
Kwirt Johnson, Senior Loan Officer
Deloris Koppinger, Customer Service Assistant
Jay Krank, Senior Loan Officer
Tasha Paulson, Customer Service Assistant/Receptionist
Carrie Scheeler, Insurance Representative
Stacy Steffan, Senior Loan Officer/Office Manager
Karlie Wanner, Customer Service Assistant
Mary Zastoupil, Customer Service Assistant

**Mandan Branch**
1600 Old Red Trail, P.O. Box 5001
Mandan, ND 58554 (701) 663-6487 or (800) 660-6487
Sara Clement, Insurance Representative
Matt Dahlke, Loan Officer
Jodie Doll, Customer Service Assistant
Pearl Ereth, Account Representative
Julie Heidt, Customer Service Assistant/Receptionist
LaRae Helbling, Customer Service Assistant
Penny Hoesel, Insurance Representative
Jordan Hulm, Loan Officer Trainee
Nathan Kuntz, Loan Officer
Jaime Lundquist, Insurance Representative
Craig Malm, Loan Officer
Michelle Marohl, Customer Service Assistant/Insurance
Shelly Nehl, Loan Officer
Carla Nelson, Insurance Representative
Amanda Thomsen, Loan Officer
Martin Well, Senior Loan Officer
Kendal Winkler, Customer Service Assistant

**Mott Branch**
320 Pacific Avenue, P.O. Box 249
Mott, ND 58646 (701) 824-3203 or (800) 520-3203
Dantae Anderson, Loan Officer/Office Manager
Holly Ebner, Customer Service Assistant/Insurance
Serena Frederick, Insurance Representative
Miranda Green, Customer Service Assistant
Adam Wishek, Loan Officer

**Washburn Branch**
1157 Border Lane, P.O. Box 158
Washburn, ND 58577 (701) 462-3514 or (866) 470-3514
Wanda Giedd, Customer Service Assistant
Kristi Laframboise, Insurance Representative
Donna Sommer, Loan Officer/Office Manager

**Wishek Branch**
1207 Beaver Avenue, P.O. Box 616
Wishek, ND 58495 (701) 452-4252 or (800) 327-2474
Darrell Bitz, Senior Loan Officer
Danielle Goebel, Customer Service Assistant
Jessica Long, Insurance Representative
Jill Scherbenske, Customer Service Assistant
John Wishek, Loan Officer/Office Manager
Nathan Wolf, Loan Officer
Debbie Zillmer, Insurance Representative

**Farm Credit Services of Mandan, ACA**

**Post Office Box 5001 • Mandan, ND 58554-5501 • (701) 663-6487**

**Visit us at www.farmcreditmandan.com**