AgHeritage®
Farm Credit Services

2020 ANNUAL REPORT

FARM CREDIT

ONE MISSION | MANY VOICES

Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow.

DEEP ROOTS IN RURAL AMERICA

Farm Credit is a nationwide network of customer-owned financial institutions that provides loans and related financial services to U.S. farmers and ranchers, farmer-owned cooperatives, rural homebuyers, agribusinesses and rural infrastructure providers.

As customer-owned cooperatives, Farm Credit institutions are governed by the customers they serve and have a specific mission to support rural communities and agriculture – in good times and bad. Farm Credit loans help U.S. agricultural producers feed the world, rural businesses grow and the rural economy thrive. Our infrastructure lending helps bring clean water to rural families, modern telecommunications to help rural businesses compete and reliable energy to rural communities.

Farm Credit's mission remains just as vital today as it was when we made our first loan more than 100 years ago. For more information about Farm Credit and how we support rural communities and agriculture, please visit **www.farmcredit.com.**

SUPPORT

Make loans to more than 500,000 customers, including farmers, ranchers, farmer-owned co-ops and agribusiness in every state. Also finance exports of U.S. agriculture products.

RURAL COMMUNITIES

Support development of rural infrastructure, including water, telecommunications, electricity and transportation across the country.

AGRICULTURE

Serve approximately 40 percent of the agriculture sector's credit needs.

CREDIT & FINANCIAL SERVICES

Make loans for agriculture real estate and home mortgages, farm operations, equipment purchases, agribusiness operations, U.S. agricultural exports and infrastructure construction and operations. Provide financial services, including, crop insurance, credit life insurance and more.

RELIABLE & CONSISTENT

Provide a steady source of capital needed to support customers through good times and bad.

TODAY & TOMORROW

Lead the way in providing credit to young, beginning and small farmers and ranchers.

BIO-STAR:

Was designed to portray Farm Credit as a strong, unified national network ready to meet the challenges of a changing and competitive financial industry.

The BioStar is a symbol of progress and commitment consisting of five visual elements: three leaves, a root system and a star. The leaves represent the three types of lending done by the Farm Credit System – long-term real estate, short-term operating and cooperative financing. The roots represent our member-borrowers, and the star represents light and direction. The prefix "Bio" describes life, while the suffix "Star" captures the strong energetic shape within the symbol.



BOARD OF DIRECTORS

Dwain Morris
Northern Region
Chairman

Jerry Burkett
Southern Region
Vice Chairman

Russell Bonner
Central Region

Dow Brantley
Central Region

Jesse Briggs
Southern Region

Mike Burkett
Northern Region

Chuck Culver
Outside Director

Mark Isbell
Central Region

Sandra Morgan
Outside Director

Jeff Rutledge
Northern Region

Clay Schaefer
Central Region

Scott Young
Southern Region

SENIOR LEADERSHIP

Greg Cole
President & Chief
Executive Officer

Blake Swindle
Senior Vice President
& Chief Commercial
Lending Officer

Drue Ford
Senior Vice President
& Chief Credit Officer

Ken Sumner
Senior Vice President
& Chief Financial
Officer

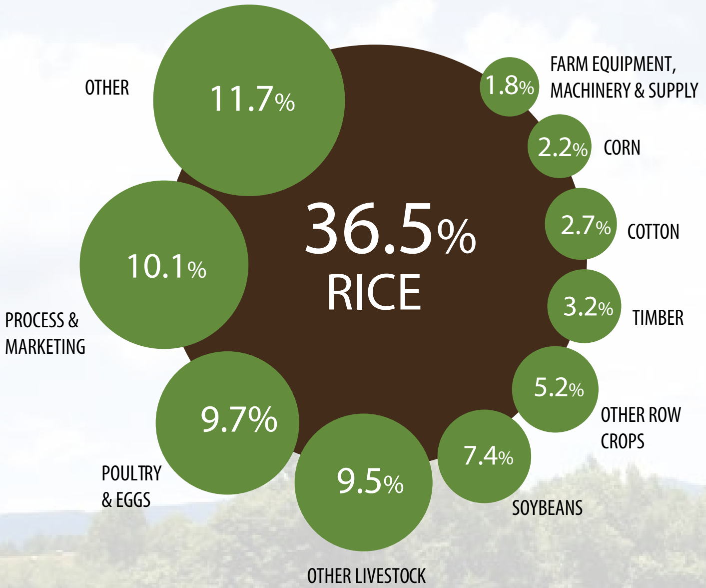
Cole Plafcan
Senior Vice President
& Chief Lending &
Marketing Officer

Leslie Brown
Vice President Chief
Human Capital Officer

AGHERITAGE FARM CREDIT SERVICES

at a glance

Our Portfolio



Assets & Growth

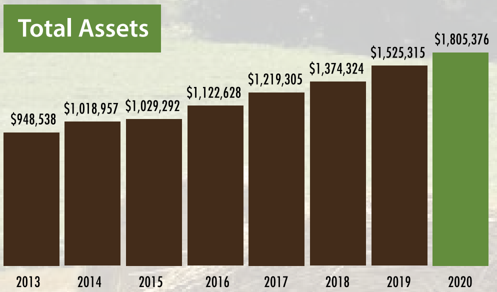
$1.81 BILLION in Total Assets

9 BRANCH LOCATIONS

Batesville Brinkley Lonoke McGehee Newport Pine Bluff Pocahontus Searcy Stuttgart

SERVING 6,033 MEMBERS ACROSS 24 COUNTIES

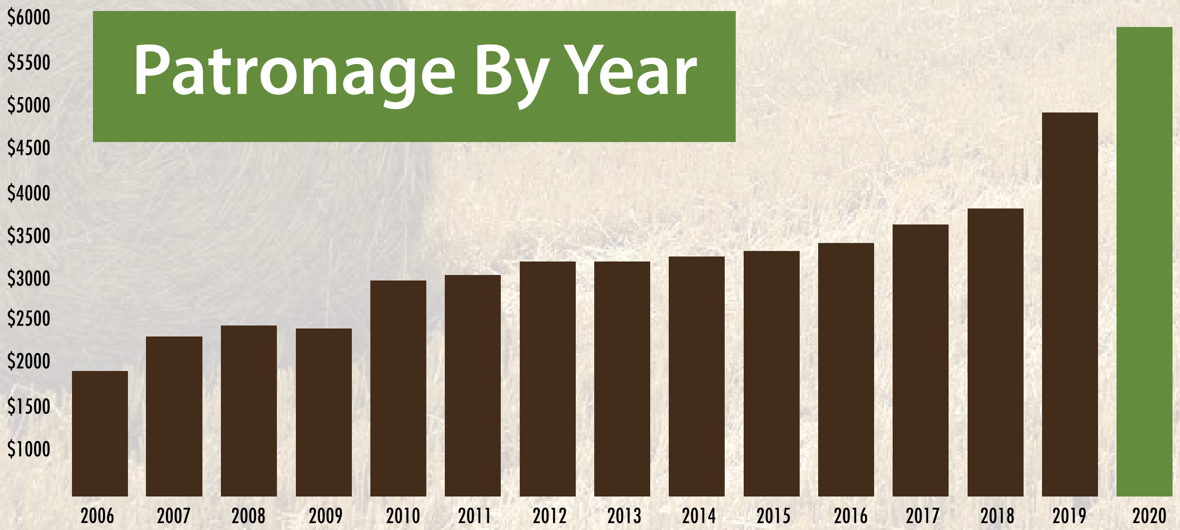
Total Assets



Net Income

Total Capital

Patronage By Year



WE LOVE *giving back* TO OUR CUSTOMER-OWNERS

At AgHeritage, we're owned by the very customers we serve. This means our customer-owners enjoy sharing in our profits, which makes us different than other lenders in Arkansas.

Since 2006, $50.95 million has gone back in to our customer's hands.

AgHeritage
Farm Credit Services

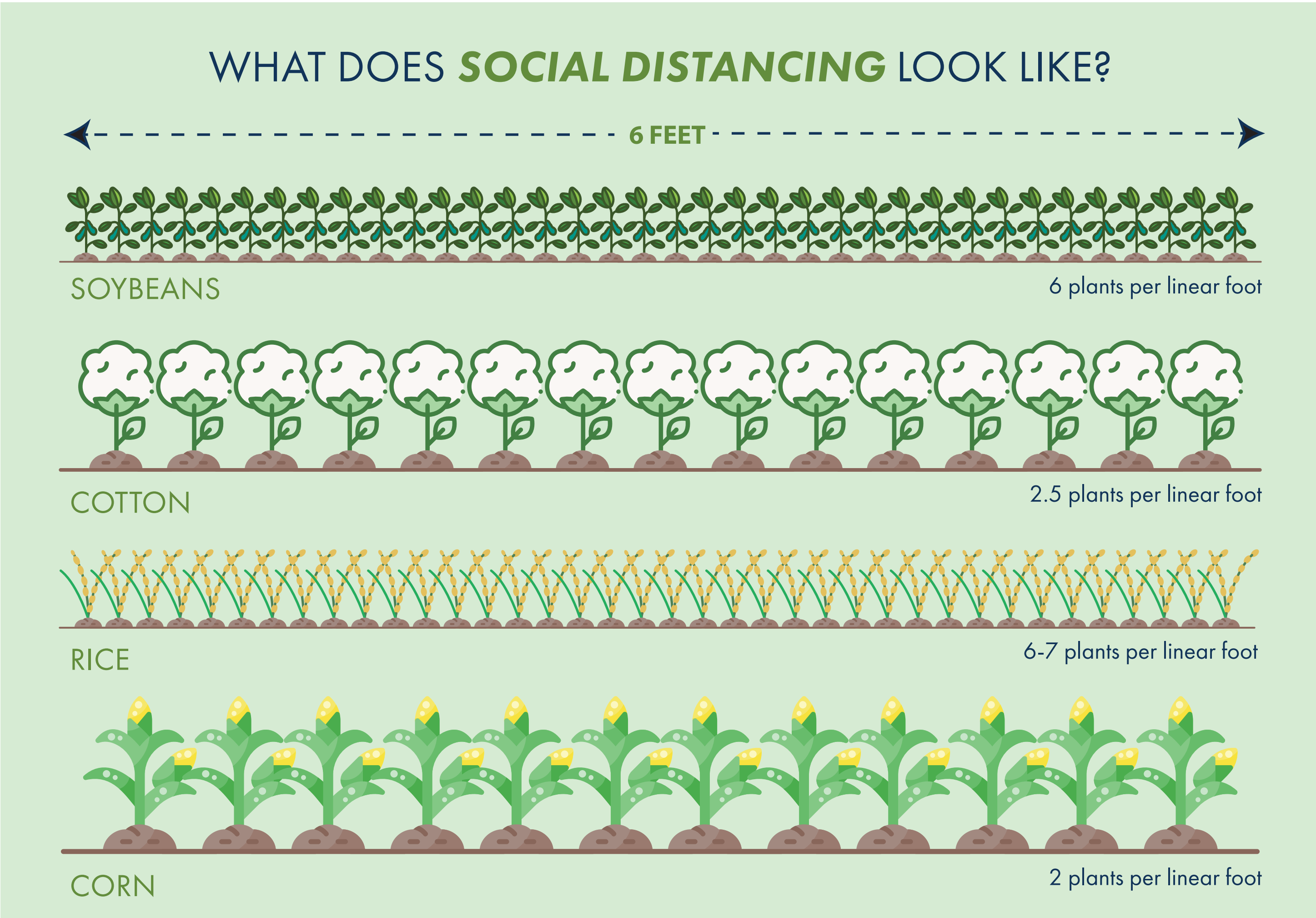
HOW ARE WE HANDLING **COVID-19?**

A report on our efforts to mitigate risk during a global pandemic was not one that we saw coming at the start of 2020, but thankfully the agriculture community is resilient and flexible. The health and safety of our customers, employees and their families as well as the continuation of business operations is, as always, a top priority for the Senior Leadership Team and the Board of Directors.

Thus, to do our part and "slow the spread," we enacted measures early in the spring to stay safe while serving our farm families and agribusinesses. First and foremost, we have and will continue to follow the guidelines provided by state and national health experts, such as the CDC's suggestions of social distancing by at least six feet and wearing a mask in public spaces when social distancing is not possible.

Internally, employees have been conducting meetings via Zoom rather than gathering around the board room table. To further decrease personal contact, we closed our lobbies to the public and general customer traffic and provided outside drop boxes for payments. Personal assistance is by appointment only at the branch offices, and for 24-hour access to account information, customers have been encouraged to enroll in our new, improved online banking tool, myAgHeritage.

A heart-felt "thank you" goes out to all of our customers, employees and leaders who have complied with the guidelines and embraced doing business in a safe and healthy manner. We appreciate your support and look forward to when we can all gather in person once again.



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AgHeritage Farm Credit Services, ACA

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear AgHeritage Farm Credit Services Customer-Owners,

We are pleased to report AgHeritage Farm Credit Services, ACA, despite the disruption from the COVID-19 crisis, experienced robust performance and generated strong financial results in terms of capital, efficiency ratio, asset growth, credit quality and earnings. The Association also continues to achieve exceptional customer satisfaction and employee engagement survey results. Your cooperative has grown to exceed $1.8 billion in assets and enjoys a strong market share position confirming we are achieving our vision of being the agricultural lender of choice in our local marketplace.

The Association paid $6.0 million in patronage based on 2020 earnings to eligible customer-owners in February 2021. The Board of Directors remains committed to our customer-owners in sharing the success of your cooperative. The $6.0 million payout represents approximately 16.7 percent of net earnings, which allows retention of a portion of earnings to provide for future growth and capital stability. Your cooperative has distributed a portion of its annual earnings to its customer-owners for fifteen consecutive years. AgHeritage has distributed $50.95 million to customer-owners and plans to continue patronage distributions well into the future.

From an agricultural economy perspective, the profitability outlook in 2020 improved due to increases in crop prices, mainly attributed to an increase in export demand, coupled with strong harvest yields and government support payments. Although the protein industry was hit hard by the pandemic, there has been improvement and production capacity has been restored.

In 2020, the Association made a significant investment in human capital by adding more staff. This allows us to continue to grow our business model, enhance customer service and improve risk management and succession. Investments were also made in technology to help us meet customer expectations and improve efficiencies.

The Annual Report provides detailed documentation supporting the financial results of the Association. We encourage you to review it carefully, and if you have questions, contact our corporate office or any branch location.

AgHeritage Farm Credit Services, ACA is proud to be your lending cooperative providing both customer and stockholder value to our customer-owners. We want to thank you for allowing us to serve your credit and financial services needs today and tomorrow. We also want to thank our staff for their dedication and hard work. Serving agriculture and Rural America is not just our mission; it’s our passion.

Sincerely,

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

March 12, 2021

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

AgHeritage Farm Credit Services, ACA

(dollars in thousands)

As of December 31	**2020**	2019	2018	2017	2016
Statement of Condition Data					
Loans	**$ 1,739,013**	$ 1,459,978	$ 1,314,268	$ 1,166,229	$ 1,073,202
Allowance for loan losses	**10,919**	7,693	4,458	4,404	5,307
Net loans	**1,728,094**	1,452,285	1,309,810	1,161,825	1,067,895
Investment in AgriBank, FCB	**38,276**	32,968	27,449	25,269	22,219
Investment securities	**590**	982	1,663	3,643	6,004
Other assets	**38,416**	39,080	35,402	28,568	26,510
Total assets	**$ 1,805,376**	$ 1,525,315	$ 1,374,324	$ 1,219,305	$ 1,122,628
Obligations with maturities of one year or less	**$ 18,138**	$ 19,403	$ 15,979	$ 13,780	$ 866,727
Obligations with maturities greater than one year	**1,433,565**	1,181,941	1,058,397	929,140	--
Total liabilities	**1,451,703**	1,201,344	1,074,376	942,920	866,727
Protected members' equity	**--**	1	1	1	1
Capital stock and participation certificates	**3,093**	2,943	2,839	2,759	2,875
Unallocated surplus	**351,796**	321,852	297,588	274,207	253,025
Accumulated other comprehensive loss	**(1,216)**	(825)	(480)	(582)	--
Total members' equity	**353,673**	323,971	299,948	276,385	255,901
Total liabilities and members' equity	**$ 1,805,376**	$ 1,525,315	$ 1,374,324	$ 1,219,305	$ 1,122,628

For the year ended December 31	**2020**	2019	2018	2017	2016
Statement of Income Data					
Net interest income	**$ 45,175**	$ 40,294	$ 36,952	$ 34,602	$ 32,259
Provision for credit losses	**4,031**	3,248	69	1,834	3,764
Other expenses (income), net	**5,241**	7,766	9,585	7,899	7,188
Net income	**$ 35,903**	$ 29,280	$ 27,298	$ 24,869	$ 21,307
Key Financial Ratios					
For the Year					
Return on average assets	**2.1%**	2.0%	2.1%	2.1%	1.9%
Return on average members' equity	**10.6%**	9.4%	9.5%	9.3%	8.6%
Net interest income as a percentage of average earning assets	**2.8%**	2.8%	2.9%	3.0%	3.0%
Net charge-offs (recoveries) as a percentage of average loans	**0.0%**	0.0%	0.0%	0.2%	(0.0%)
At Year End					
Members' equity as a percentage of total assets	**19.6%**	21.2%	21.8%	22.7%	22.8%
Allowance for loan losses as a percentage of loans	**0.6%**	0.5%	0.3%	0.4%	0.5%
Capital ratios effective beginning January 1, 2017:					
Common equity tier 1 ratio	**16.8%**	18.0%	18.5%	19.1%	N/A
Tier 1 capital ratio	**16.8%**	18.0%	18.5%	19.1%	N/A
Total capital ratio	**17.3%**	18.4%	18.8%	19.4%	N/A
Permanent capital ratio	**16.9%**	18.1%	18.6%	19.2%	N/A
Tier 1 leverage ratio	**18.1%**	19.5%	19.7%	20.8%	N/A
Capital ratios effective prior to 2017:					
Permanent capital ratio	**N/A**	N/A	N/A	N/A	20.0%
Total surplus ratio	**N/A**	N/A	N/A	N/A	19.8%
Core surplus ratio	**N/A**	N/A	N/A	N/A	19.8%
Net Income Distributed					
For the Year					
Patronage distributions:					
Cash	**$ 4,959**	$ 3,911	$ 3,717	$ 3,587	$ 3,455

MANAGEMENT'S DISCUSSION AND ANALYSIS

AgHeritage Farm Credit Services, ACA

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

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

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

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

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

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www.agheritagefcs.com

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

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

FORWARD-LOOKING INFORMATION

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

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

COVID-19 PANDEMIC

The spread of COVID-19 has created a global public-health crisis that has adversely impacted the worldwide economy, temporarily decreased liquidity in fixed income markets in March and April, significantly increased unemployment levels, and disrupted global supply and demand chains. Although production agriculture fared better than expected during the second half of 2020, in part due to government ad-hoc support programs, uncertainties about the pace of economic recovery remain as the impact and duration of the pandemic is unknown.

The overall impact of the COVID-19 pandemic on U.S. agriculture will depend on the severity and duration of the outbreak, the continued response by federal, state and local governments, and levels of commodity prices, among many other factors. To date, the global pandemic has not resulted in a material adverse financial impact to our Consolidated Financial Statements. The extent to which the pandemic ultimately impacts our business, results of operations and financial condition, including regulatory capital and liquidity ratios and other regulatory requirements, will depend on future developments that are highly uncertain and cannot be predicted. Overall, agriculture will adjust, providing an essential service to the U.S. and global consumer.

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

AGRICULTURAL AND ECONOMIC CONDITIONS

As we have observed while renewing operating loans for the 2021 crop year, the majority (over 80%) of our row crop customers had positive returns for the 2020 crop. Crop yields and quality were good. Markets were disrupted during 2020 due to the COVID-19 pandemic, but this has not had a material impact to our credit quality. Commodity prices during 2020 were weak relative to historical averages; however, prices have strengthened recently due to improved export markets. Currently, the 2021 outlook is good for crops grown in our area. We expect stable credit quality in the short term assuming current conditions remain in place. Land values in our area are stable.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $1.7 billion at December 31, 2020, an increase of $279 million from December 31, 2019.

Components of Loans

(in thousands)

As of December 31	**2020**	2019	2018
Accrual loans:			
Real estate mortgage	**$ 928,016**	$ 757,488	$ 663,691
Production and intermediate-term	**439,348**	420,726	429,853
Agribusiness	**295,371**	205,642	127,456
Other	**65,855**	66,067	82,540
Nonaccrual loans	**10,423**	10,055	10,728
Total loans	**$ 1,739,013**	$ 1,459,978	$ 1,314,268

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

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

We have sold to AgriBank participation interests in certain loans as part of a pool program. The total outstanding participation interests in this program were $13.9 million, $18.6 million and $21.5 million at December 31, 2020, 2019 and 2018, respectively.

The U.S. government has instituted various programs in support of the COVID-19 economic recovery. In early 2020, Congress passed the Coronavirus Aid, Relief and Economic Security Act (the CARES Act). Among other provisions, the CARES Act and congressional approval made available for small businesses approximately $660.0 billion under the Paycheck Protection Program (PPP), which is a guaranteed loan program administered by the U.S. Small Business Administration (SBA). We obtained approval from the SBA in April 2020 to participate as a lender in the PPP. Loan applicants with 500 or fewer employees or who fit within the revenue-based size standard and who are eligible to receive financing under the Farm Credit Act and the FCA Regulations were able to borrow from our association under this program. The PPP provided for loan forgiveness under limited circumstances and loan payments were deferred up to six months. Since beginning the program, we have successfully processed $2.3 million in PPP loans for customers. We are working with our customers gathering documentation and submitting applications for the forgiveness of the PPP loans and $430 thousand has been forgiven as of December 31, 2020. At the end of December 2020, additional legislation was passed to extend the PPP by approximately $280.0 billion, which modified and expanded eligibility to borrowers and will be available through March 31, 2021. We have not had significant requests for loans under this expanded program.

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

We offer variable, fixed, capped, 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.

Portfolio Distribution

We are chartered to serve certain counties in Arkansas. Approximately 40.7% of our total loan portfolio was in Lonoke, Lawrence, Pulaski, Arkansas, Randolph and Jackson counties at December 31, 2020.

Agricultural Concentrations

As of December 31	2020	2019	2018
Rice	**36.5%**	38.3%	41.9%
Processing and marketing	**10.1%**	9.6%	7.4%
Poultry and eggs	**9.7%**	6.7%	3.1%
Other livestock	**9.5%**	10.3%	10.5%
Soybeans	**7.4%**	8.2%	8.3%
Other row crops	**5.2%**	4.7%	2.7%
Timber	**3.2%**	2.7%	2.7%
Cotton	**2.7%**	2.6%	4.4%
Corn	**2.2%**	2.7%	4.0%
Farm equipment, machinery and supply	**1.8%**	1.8%	3.2%
Other	**11.7%**	12.4%	11.8%
Total	**100.0%**	100.0%	100.0%

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

Portfolio Credit Quality

The credit quality of our portfolio improved from December 31, 2019. Adversely classified loans decreased to 2.2% of the portfolio at December 31, 2020, from 3.2% of the portfolio at December 31, 2019. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government agency guarantee programs are used to reduce the risk of loss. At December 31, 2020, $14.0 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

Components of Risk Assets

(dollars in thousands)

As of December 31	2020	2019	2018
Loans:			
Nonaccrual	**$ 10,423**	$ 10,055	$ 10,728
Accruing restructured	**--**	--	--
Accruing loans 90 days or more past due	**--**	--	368
Total risk loans	**10,423**	10,055	11,096
Other property owned	**--**	--	--
Total risk assets	**$ 10,423**	$ 10,055	$ 11,096
Total risk loans as a percentage of total loans	**0.6%**	0.7%	0.8%
Nonaccrual loans as a percentage of total loans	**0.6%**	0.7%	0.8%
Current nonaccrual loans as a percentage of total nonaccrual loans	**21.9%**	41.1%	64.4%
Total delinquencies as a percentage of total loans	**0.6%**	0.6%	0.6%

Note: Accruing loans include accrued interest receivable.

Our risk assets have not changed significantly from December 31, 2019, and have remained at acceptable levels. Total risk loans as a percentage of total loans were well within our established risk management guidelines.

Allowance for Loan Losses

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

Allowance Coverage Ratios

As of December 31	2020	2019	2018
Allowance as a percentage of:			
Loans	**0.6%**	0.5%	0.3%
Nonaccrual loans	**104.8%**	76.5%	41.6%
Total risk loans	**104.8%**	76.5%	40.2%
Net charge-offs as a percentage of average loans	**0.0%**	0.0%	0.0%
Adverse assets to capital and allowance for loan losses	**10.7%**	14.3%	15.7%

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

Additional loan information is included in Notes 3, 10, 11 and 12 to the accompanying Consolidated Financial Statements.

INVESTMENT SECURITIES

In addition to loans, we held investment securities. Investment securities totaled $590 thousand, $982 thousand and $1.7 million at December 31, 2020, 2019 and 2018, respectively. Our investment securities consisted of loans guaranteed by the SBA.

The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2020, 2019 and 2018, we have not recognized any impairment on our investment portfolio.

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

RESULTS OF OPERATIONS

Profitability Information

(dollars in thousands)

For the year ended December 31	2020	2019	2018
Net income	**$ 35,903**	$ 29,280	$ 27,298
Return on average assets	**2.1%**	2.0%	2.1%
Return on average members' equity	**10.6%**	9.4%	9.5%

Changes presented in the profitability information chart relate directly to:

- Changes in income discussed in this section
- Changes in assets discussed in the Loan Portfolio and Investment Securities sections
- Changes in capital discussed in the Capital Adequacy section

Changes in Significant Components of Net Income

	For the year ended December 31			Increase (decrease) in net income	
(in thousands)	**2020**	2019	2018	**2020 vs 2019**	2019 vs 2018
Net interest income	**$ 45,175**	$ 40,294	$ 36,952	**$ 4,881**	$ 3,342
Provision for credit losses	**4,031**	3,248	69	**(783)**	(3,179)
Non-interest income	**13,397**	10,131	9,287	**3,266**	844
Non-interest expense	**17,893**	16,913	17,998	**(980)**	1,085
Provision for income taxes	**745**	984	874	**239**	(110)
Net income	**$ 35,903**	$ 29,280	$ 27,298	**$ 6,623**	$ 1,982

Net Interest Income

Changes in Net Interest Income

(in thousands)

For the year ended December 31	2020 vs 2019	2019 vs 2018
Changes in volume	**$ 4,896**	$ 3,770
Changes in interest rates	**(513)**	(166)
Changes in nonaccrual income and other	**498**	(262)
Net change	**$ 4,881**	$ 3,342

Net interest income included income on nonaccrual loans that totaled $944 thousand, $447 thousand and $709 thousand in 2020, 2019 and 2018, respectively. Nonaccrual income is recognized when received in cash, collection of the recorded investment is fully expected and prior charge-offs have been recovered. See the Regulatory Matters section for discussion regarding revised criteria to reinstate nonaccrual loans to accrual status.

Net interest margin (net interest income as a percentage of average earning assets) was 2.8%, 2.8% and 2.9% in 2020, 2019 and 2018, respectively. Our net interest margin is sensitive to interest rate changes and competition.

Provision for Credit Losses

The change in the provision for credit 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 patronage and fee income.

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

Patronage Income

(in thousands)

For the year ended December 31	**2020**	2019	2018
Patronage from AgriBank	**$ 8,509**	$ 6,986	$ 6,214
Other patronage	**124**	59	130
Total patronage income	**$ 8,633**	$ 7,045	$ 6,344
Form of patronage distributions:			
Cash	**$ 8,633**	$ 4,028	$ 6,344
Stock	**--**	3,017	--
Total patronage income	**$ 8,633**	$ 7,045	$ 6,344

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

Fee Income: The increase in fee income was primarily due to an increase in loan conversion fees, along with fees for originating PPP loans guaranteed by the SBA. The increased loan conversion opportunities were the result of the lower interest rate environment.

Non-Interest Expense

Components of Non-interest Expense

(dollars in thousands)

For the year ended December 31	**2020**	2019	2018
Salaries and employee benefits	**$ 10,038**	$ 9,401	$ 9,244
Other operating expense:			
Purchased and vendor services	**2,326**	1,940	1,998
Communications	**276**	278	251
Occupancy and equipment	**1,092**	995	829
Advertising and promotion	**529**	580	449
Examination	**509**	464	414
Farm Credit System insurance	**1,310**	1,079	944
Other	**1,736**	1,973	1,736
Other non-interest expense	**77**	203	2,133
Total non-interest expense	**$ 17,893**	$ 16,913	$ 17,998
Operating rate	**1.1%**	1.2%	1.4%

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 2020, 2019 and 2018. Additional discussion is included in Note 8 to the accompanying Consolidated Financial Statements.

FUNDING AND LIQUIDITY

We borrow from AgriBank, under a note payable, in the form of a line of credit, as described in Note 6 to the accompanying Consolidated Financial Statements. This line of credit is our primary source of liquidity and is used to fund operations and meet current obligations. At December 31, 2020, we had $162.6 million available under our line of credit. We generally apply excess cash to this line of credit. Due to the cooperative structure of the Farm Credit System and as we are a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future. Our other source of lendable funds is from equity.

Note Payable Information

(dollars in thousands)

For the year ended December 31	**2020**	2019	2018
Average balance	**$ 1,321,747**	$ 1,151,541	$ 1,018,740
Average interest rate	**1.9%**	2.9%	2.6%

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

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

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

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

CAPITAL ADEQUACY

Total members' equity was $353.7 million, $324.0 million and $299.9 million at December 31, 2020, 2019 and 2018, respectively. Total members' equity increased $29.7 million from December 31, 2019, primarily due to net income for the year partially offset by patronage distribution accruals**.**

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

Regulatory Capital Requirements and Ratios

As of December 31	**2020**	2019	2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**16.8%**	18.0%	18.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.8%**	18.0%	18.5%	6.0%	2.5%	8.5%
Total capital ratio	**17.3%**	18.4%	18.8%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.9%**	18.1%	18.6%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**18.1%**	19.5%	19.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.0%**	20.2%	20.3%	1.5%	N/A	1.5%

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

Capital ratios are directly impacted by changes in capital, assets and off-balance sheet commitments. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional discussion of regulatory ratios and members' equity information is included in Note 7 to the accompanying Consolidated Financial Statements and off-balance sheet commitments are discussed in Note 11 to the accompanying Consolidated Financial Statements.

In addition to these regulatory requirements, we establish an optimum total capital target range. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. Our optimum total capital target range is 16% to 20%, as defined in our 2021 capital plan.

If the capital ratios fall below the total requirements, including the buffer amounts, capital distributions (equity redemptions, dividends and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. We do not foresee any events that would result in this prohibition in 2021.

RELATIONSHIP WITH AGRIBANK

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement (GFA), as discussed in Note 6 to the accompanying Consolidated Financial Statements, governs this lending relationship.

The components of cost of funds under the GFA include:

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

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

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

Investment

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

We are also required to hold additional investment in AgriBank based on a contractual agreement under a pool program.

Patronage

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

Purchased Services

As of December 31, 2020, we purchased certain business services from AgriBank. Until the formation of SunStream Business Services (SunStream) on April 1, 2020, we also purchased financial and retail information technology, collateral, and tax reporting services from AgriBank. These services are now offered by SunStream. For further discussion on our relationship with SunStream see the Other Relationships and Programs section. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

Impact on Members' Investment

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

OTHER RELATIONSHIPS AND PROGRAMS

Relationships with Other Farm Credit Institutions

AgCountry CFG: We participate as a preferred partner 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 $214.7 million, $171.6 million and $130.2 million of AgCountry CFG volume at December 31, 2020, 2019 and 2018, respectively. We also had $68.3 million of available commitment on AgCountry CFG loans at December 31, 2020.

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.

CoBank, ACB: We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $370 thousand at December 31, 2020, 2019 and 2018.

SunStream Business Services: We have a relationship with SunStream, which involves purchasing financial and retail information technology, collateral and tax reporting services. SunStream was a division of AgriBank prior to April 1, 2020, when SunStream formed a separate System service corporation, of which we are a partial owner. Our entire investment in SunStream was called on April 1, 2020, at which time $183 thousand was paid in cash and the remainder was paid in January 2021. As of December 31, 2020, our investment in SunStream was $329 thousand. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

Farm Credit Foundations: We have a relationship with Farm Credit Foundations (Foundations), a System service corporation, which involves purchasing human resource, benefit, payroll and workforce management services. As of December 31, 2020, 2019 and 2018, our investment in Foundations was $13 thousand. Additional related party information is included in Note 10 to the accompanying Consolidated Financial Statements.

Programs

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

REGULATORY MATTERS

Criteria to Reinstate Nonaccrual Loans

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

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

Investment Securities Eligibility

The FCA Board approved a final rule to amend the investment eligibility regulation. The final rule became effective December 4, 2020, and allows associations to purchase portions of loans in the secondary market that are fully and unconditionally guaranteed by the United States Department of Agriculture.

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

REPORT OF MANAGEMENT

AgHeritage Farm Credit Services, ACA

We prepare the Consolidated Financial Statements of AgHeritage Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that in the Consolidated Financial Statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable, but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the Consolidated Financial Statements. 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.

Dwain Morris
Chairperson of the Board
AgHeritage Farm Credit Services, ACA

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 12, 2021

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

AgHeritage Farm Credit Services, ACA

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

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

Based on the assessment performed, the Association concluded that as of December 31, 2020, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2020.

Greg Cole

Gregory W. Cole
President and Chief Executive Officer
AgHeritage Farm Credit Services, ACA

Ken Sumner

Kenneth L. Sumner
Senior Vice President and Chief Financial Officer
AgHeritage Farm Credit Services, ACA

March 12, 2021

REPORT OF AUDIT COMMITTEE

AgHeritage Farm Credit Services, ACA

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

Management is responsible for internal controls and the preparation of the Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Consolidated Financial Statements in accordance with auditing standards generally accepted in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

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

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

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

Sandra Morgan

Sandra Morgan
Chairperson of the Audit Committee
AgHeritage Farm Credit Services, ACA

Additional Audit Committee members:
Russell Bonner
Jerry Burkett
Jeff Rutledge
Dow Brantley

March 12, 2021

pwc

Report of Independent Auditors

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 12, 2021

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
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CONSOLIDATED STATEMENTS OF CONDITION

AgHeritage Farm Credit Services, ACA

(in thousands)

As of December 31	**2020**	2019	2018
ASSETS			
Loans	**$ 1,739,013**	$ 1,459,978	$ 1,314,268
Allowance for loan losses	**10,919**	7,693	4,458
Net loans	**1,728,094**	1,452,285	1,309,810
Investment in AgriBank, FCB	**38,276**	32,968	27,449
Investment securities	**590**	982	1,663
Accrued interest receivable	**24,015**	26,805	24,547
Deferred tax assets, net	**498**	510	317
Other assets	**13,903**	11,765	10,538
Total assets	**$ 1,805,376**	$ 1,525,315	$ 1,374,324
LIABILITIES			
Note payable to AgriBank, FCB	**$ 1,433,565**	$ 1,181,941	$ 1,058,397
Accrued interest payable	**5,314**	8,319	7,659
Patronage distribution payable	**6,000**	5,000	3,900
Other liabilities	**6,824**	6,084	4,420
Total liabilities	**1,451,703**	1,201,344	1,074,376
Contingencies and commitments (Note 11)			
MEMBERS' EQUITY			
Protected members' equity	**--**	1	1
Capital stock and participation certificates	**3,093**	2,943	2,839
Unallocated surplus	**351,796**	321,852	297,588
Accumulated other comprehensive loss	**(1,216)**	(825)	(480)
Total members' equity	**353,673**	323,971	299,948
Total liabilities and members' equity	**$ 1,805,376**	$ 1,525,315	$ 1,374,324

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31		2020		2019		2018
Interest income	**$**	**70,195**	$	73,524	$	63,532
Interest expense		**25,020**		33,230		26,580
Net interest income		**45,175**		40,294		36,952
Provision for credit losses		**4,031**		3,248		69
Net interest income after provision for credit losses		**41,144**		37,046		36,883
Non-interest income						
Patronage income		**8,633**		7,045		6,344
Financially related services income		**346**		291		277
Fee income		**4,038**		2,253		1,819
Allocated Insurance Reserve Accounts distribution		**305**		297		686
Other non-interest income		**75**		245		161
Total non-interest income		**13,397**		10,131		9,287
Non-interest expense						
Salaries and employee benefits		**10,038**		9,401		9,244
Other operating expense		**7,778**		7,309		6,621
Other non-interest expense		**77**		203		2,133
Total non-interest expense		**17,893**		16,913		17,998
Income before income taxes		**36,648**		30,264		28,172
Provision for income taxes		**745**		984		874
Net income	**$**	**35,903**	$	29,280	$	27,298
Other comprehensive (loss) income						
Employee benefit plans activity	**$**	**(391)**	$	(345)	$	102
Total other comprehensive (loss) income		**(391)**		(345)		102
Comprehensive income	**$**	**35,512**	$	28,935	$	27,400

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

AgHeritage Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance as of December 31, 2017	$ 1	$ 2,759	$ 274,207	$ (582)	$ 276,385
Net income	--	--	27,298	--	27,298
Other comprehensive income and other	--	--	--	102	102
Unallocated surplus designated for patronage distributions	--	--	(3,917)	--	(3,917)
Capital stock and participation certificates issued	--	252	--	--	252
Capital stock and participation certificates retired	--	(172)	--	--	(172)
Balance as of December 31, 2018	1	2,839	297,588	(480)	299,948
Net income	--	--	29,280	--	29,280
Other comprehensive loss	--	--	--	(345)	(345)
Unallocated surplus designated for patronage distributions	--	--	(5,011)	--	(5,011)
Cumulative effect of change in accounting principle	--	--	(5)	--	(5)
Capital stock and participation certificates issued	--	297	--	--	297
Capital stock and participation certificates retired	--	(193)	--	--	(193)
Balance as of December 31, 2019	1	2,943	321,852	(825)	323,971
Net income	**--**	**--**	**35,903**	**--**	**35,903**
Other comprehensive loss	**--**	**--**	**--**	**(391)**	**(391)**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(5,959)**	**--**	**(5,959)**
Capital stock and participation certificates issued	**--**	**415**	**--**	**--**	**415**
Capital stock and participation certificates retired	**(1)**	**(265)**	**--**	**--**	**(266)**
Balance as of December 31, 2020	**$ --**	**$ 3,093**	**$ 351,796**	**$ (1,216)**	**$ 353,673**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

AgHeritage Farm Credit Services, ACA

(in thousands)

For the year ended December 31		2020		2019		2018
Cash flows from operating activities						
Net income	**$**	**35,903**	$	29,280	$	27,298
Depreciation on premises and equipment		**468**		441		366
Gain on sale of premises and equipment, net		**(22)**		(60)		(60)
Amortization of (discounts) premiums on loans and investment securities		**(55)**		(2)		13
Provision for credit losses		**4,031**		3,248		69
Stock patronage received from AgriBank, FCB		**--**		(3,017)		--
(Gain) loss on other property owned, net		**(4)**		(15)		--
Changes in operating assets and liabilities:						
Decrease (increase) in accrued interest receivable		**2,547**		(2,538)		(3,759)
Increase in other assets		**(1,655)**		(981)		(1,594)
(Decrease) increase in accrued interest payable		**(3,005)**		660		2,427
Increase (decrease) in other liabilities		**203**		1,319		(326)
Net cash provided by operating activities		**38,411**		28,335		24,434
Cash flows from investing activities						
Increase in loans, net		**(279,445)**		(145,470)		(147,858)
Purchases of investment in AgriBank, FCB, net		**(5,308)**		(2,502)		(2,180)
Purchases of investment in other Farm Credit Institutions, net		**(183)**		--		--
Proceeds from maturing investment securities		**392**		681		1,980
Proceeds from sales of other property owned		**174**		243		--
Purchases of premises and equipment, net		**(588)**		(825)		(1,814)
Net cash used in investing activities		**(284,958)**		(147,873)		(149,872)
Cash flows from financing activities						
Increase in note payable to AgriBank, FCB, net		**251,624**		123,544		129,257
Patronage distributions paid		**(4,959)**		(3,911)		(3,717)
Capital stock and participation certificates retired, net		**(118)**		(95)		(102)
Net cash provided by financing activities		**246,547**		119,538		125,438
Net change in cash		**--**		--		--
Cash at beginning of year		**--**		--		--
Cash at end of year	**$**	**--**	$	--	$	--
Supplemental information						
Interest paid	**$**	**28,025**	$	32,570	$	24,153
Taxes paid, net		**963**		1,354		1,041

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AgHeritage Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

Farm Credit System and District

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

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

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

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

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

At the discretion of the FCSIC, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the FCSIC. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2.0% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the FCSIC, at its sole discretion, to a percentage it determines to be actuarially sound. The basis for assessing premiums is debt outstanding with adjustments made for 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

AgHeritage Farm Credit Services, ACA (the Association) and its subsidiaries, AgHeritage Farm Credit Services, FLCA and AgHeritage Farm Credit Services, 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 Arkansas, Ashley, Bradley, Chicot, Cleburne, Cleveland, Desha, Drew, Fulton, Independence, Izard, Jackson, Jefferson, Lawrence, Lincoln, Lonoke, Monroe, Prairie, Pulaski, Randolph, Sharp, Stone, White and Woodruff in the state of Arkansas.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries.

We offer credit life, term life, credit disability, crop hail and multi-peril crop insurance to borrowers and those eligible to borrow. We also offer fee appraisals to our members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

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

Principles of Consolidation

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

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, unamortized deferred fees and costs on originated loans and unamortized premiums or discounts on purchased loans. 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 adequately secured and in the process of collection) or circumstances indicate that full collection is not expected.

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

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

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

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

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance. A loan is impaired when it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. We generally measure impairment based on the net realizable value of the collateral. Risk loans include 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 credit losses" in the Consolidated Statements of Comprehensive Income, recoveries and charge-offs.

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

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

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. 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. Any reserve for unfunded lending commitments and unexercised letters of credit is based on management’s best estimate of losses inherent in these instruments, but the commitments have not yet disbursed. Factors such as likelihood of disbursal and likelihood of losses given disbursement are utilized in determining a reserve, if needed. Based on our assessment, any reserve is recorded in “Other liabilities” in the Consolidated Statements of Condition and a corresponding loss is recorded in “Provision for credit losses” in the Consolidated Statements of Comprehensive Income.

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

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

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets

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

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own judgments about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

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

Standard and effective date	Description	Adoption status and financial statement impact
In March 2020, the FASB issued guidance, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The optional amendments are effective for all entities as of March 12, 2020, through December 31, 2022.	The guidance provides optional expedients and exceptions for applying GAAP to contracts and other transactions affected by reference rate reform. The guidance simplifies the accounting evaluation of contract modifications that replace a reference rate affected by reference rate reform and contemporaneous modifications of other contract terms related to the replacement of the reference rate.	We are currently evaluating the impact of this guidance on our financial condition, results of operations, cash flows, and financial statement disclosures.
In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13 "Financial Instruments - Credit Losses." The guidance was originally effective for non-U.S. Securities Exchange Commission filers for our first quarter of 2021. In November 2019, the FASB issued ASU 2019-10 which amends the mandatory effective date for this guidance for certain institutions. We have determined we qualify for the deferral of the mandatory effective date. As a result of the change, the standard is effective for our first quarter of 2023 and early adoption is permitted.	The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses.	We expect to adopt the standard as of January 1, 2023. We are currently assessing the impact this guidance will have on our financial statements upon adoption, which will be impacted by the composition of our portfolio and asset quality at the adoption date, as well as economic conditions and forecasts at the time of adoption. We have reviewed the accounting standard, selected and substantially completed development and testing of our system and are in the process of drafting disclosures. Significant implementation matters yet to be addressed include drafting of accounting policies and designing processes and controls. We are currently unable to estimate the impact on our financial statements.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans by Type

(dollars in thousands)	**2020**		2019		2018	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 936,709**	**53.9%**	$ 764,070	52.3%	$ 670,347	51.0%
Production and intermediate-term	**440,329**	**25.3%**	423,335	29.0%	433,209	33.0%
Agribusiness	**295,371**	**17.0%**	205,642	14.1%	127,456	9.7%
Other	**66,604**	**3.8%**	66,931	4.6%	83,256	6.3%
Total	**$ 1,739,013**	**100.0%**	$ 1,459,978	100.0%	$ 1,314,268	100.0%

The other category is primarily composed of rural infrastructure and rural residential real estate loans.

Portfolio Concentrations

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

As of December 31, 2020, volume plus commitments to our ten largest borrowers totaled an amount equal to 7.3% of total loans and commitments.

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

Participations

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

Participations Purchased and Sold

	AgriBank		Other Farm Credit Institutions		Total	
(in thousands)	Participations		Participations		Participations	
As of December 31, 2020	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ (13,940)**	**$ 49,060**	**$ (40,349)**	**$ 49,060**	**$ (54,289)**
Production and intermediate-term	**--**	**--**	**42,278**	**(20,556)**	**42,278**	**(20,556)**
Agribusiness	**--**	**(96,343)**	**207,139**	**(306,592)**	**207,139**	**(402,935)**
Other	**--**	**--**	**54,112**	**--**	**54,112**	**--**
Total	**$ --**	**$ (110,283)**	**$ 352,589**	**$ (367,497)**	**$ 352,589**	**$ (477,780)**

	AgriBank		Other Farm Credit Institutions		Total	
	Participations		Participations		Participations	
As of December 31, 2019	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (18,598)	$ 40,731	$ (24,026)	$ 40,731	$ (42,624)
Production and intermediate-term	--	--	44,279	(24,007)	44,279	(24,007)
Agribusiness	--	(5,276)	164,139	(41,465)	164,139	(46,741)
Other	--	--	53,639	--	53,639	--
Total	$ --	$ (23,874)	$ 302,788	$ (89,498)	$ 302,788	$ (113,372)

	AgriBank		Other Farm Credit Institutions		Total	
	Participations		Participations		Participations	
As of December 31, 2018	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ --	$ (21,242)	$ 47,729	$ (25,177)	$ 47,729	$ (46,419)
Production and intermediate-term	--	--	37,037	(14,255)	37,037	(14,255)
Agribusiness	--	(12,500)	111,615	(44,578)	111,615	(57,078)
Other	--	(256)	43,350	--	43,350	(256)
Total	$ --	$ (33,998)	$ 239,731	$ (84,010)	$ 239,731	$ (118,008)

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

Credit Quality and Delinquency

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

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

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

Credit Quality of Loans

(dollars in thousands)	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2020	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$ 906,381**	**95.3%**	**$ 26,509**	**2.8%**	**$ 17,672**	**1.9%**	**$ 950,562**	**100.0%**
Production and intermediate-term	**406,638**	**90.6%**	**33,193**	**7.4%**	**9,045**	**2.0%**	**448,876**	**100.0%**
Agribusiness	**275,896**	**92.9%**	**9,488**	**3.2%**	**11,514**	**3.9%**	**296,898**	**100.0%**
Other	**65,321**	**97.9%**	**643**	**1.0%**	**708**	**1.1%**	**66,672**	**100.0%**
Total	**$ 1,654,236**	**93.8%**	**$ 69,833**	**4.0%**	**$ 38,939**	**2.2%**	**$ 1,763,008**	**100.0%**

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2019	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 737,950	94.8%	$ 17,314	2.2%	$ 23,012	3.0%	$ 778,276	100.0%
Production and intermediate-term	398,823	91.8%	19,622	4.5%	15,899	3.7%	434,344	100.0%
Agribusiness	195,414	94.3%	4,870	2.4%	6,805	3.3%	207,089	100.0%
Other	64,026	95.5%	1,425	2.1%	1,584	2.4%	67,035	100.0%
Total	$ 1,396,213	93.9%	$ 43,231	2.9%	$ 47,300	3.2%	$ 1,486,744	100.0%

	Acceptable		Special Mention		Substandard/ Doubtful		Total	
As of December 31, 2018	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	$ 649,236	95.2%	$ 4,960	0.7%	$ 28,255	4.1%	$ 682,451	100.0%
Production and intermediate-term	413,116	92.9%	14,177	3.2%	17,403	3.9%	444,696	100.0%
Agribusiness	124,553	97.3%	2,696	2.1%	807	0.6%	128,056	100.0%
Other	79,948	95.8%	2,355	2.8%	1,204	1.4%	83,507	100.0%
Total	$ 1,266,853	94.6%	$ 24,188	1.8%	$ 47,669	3.6%	$ 1,338,710	100.0%

Note: Accruing loans include accrued interest receivable.

Aging Analysis of Loans

(in thousands) **As of December 31, 2020**	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total	Accruing Loans 90 Days or More Past Due
Real estate mortgage	**$ 884**	**$ 6,585**	**$ 7,469**	**$ 943,093**	**$ 950,562**	**$ --**
Production and intermediate-term	**1,155**	**796**	**1,951**	**446,925**	**448,876**	**--**
Agribusiness	**931**	**--**	**931**	**295,967**	**296,898**	**--**
Other	**331**	**29**	**360**	**66,312**	**66,672**	**--**
Total	**$ 3,301**	**$ 7,410**	**$ 10,711**	**$ 1,752,297**	**$ 1,763,008**	**$ --**

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	$ 1,521	$ 3,140	$ 4,661	$ 773,615	$ 778,276	$ --
Production and intermediate-term	1,037	2,444	3,481	430,863	434,344	--
Agribusiness	--	--	--	207,089	207,089	--
Other	190	271	461	66,574	67,035	--
Total	$ 2,748	$ 5,855	$ 8,603	$ 1,478,141	$ 1,486,744	$ --

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	$ 1,729	$ 615	$ 2,344	$ 680,107	$ 682,451	$ --
Production and intermediate-term	1,809	2,602	4,411	440,285	444,696	--
Agribusiness	--	--	--	128,056	128,056	--
Other	802	718	1,520	81,987	83,507	368
Total	$ 4,340	$ 3,935	$ 8,275	$ 1,330,435	$ 1,338,710	$ 368

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)

As of December 31	2020	2019	2018
Nonaccrual loans:			
Current as to principal and interest	$ **2,284**	$ 4,133	$ 6,907
Past due	**8,139**	5,922	3,821
Total nonaccrual loans	**10,423**	10,055	10,728
Accruing loans 90 days or more past due	**--**	--	368
Total risk loans	$ **10,423**	$ 10,055	$ 11,096
Volume with specific allowance	$ **1,880**	$ 2,008	$ 1,638
Volume without specific allowance	**8,543**	8,047	9,458
Total risk loans	$ **10,423**	$ 10,055	$ 11,096
Total specific allowance	$ **641**	$ 738	$ 323

For the year ended December 31	2020	2019	2018
Income on accrual risk loans	$ **--**	$ 1	$ 8
Income on nonaccrual loans	**944**	447	709
Total income on risk loans	$ **944**	$ 448	$ 717
Average risk loans	$ **11,635**	$ 11,253	$ 7,826

Note: Accruing loans include accrued interest receivable.

Nonaccrual Loans by Loan Type

(in thousands)

As of December 31	2020	2019	2018
Real estate mortgage	$ **8,693**	$ 6,581	$ 6,656
Production and intermediate-term	**981**	2,609	3,356
Other	**749**	865	716
Total	$ **10,423**	$ 10,055	$ 10,728

Additional Impaired Loan Information by Loan Type

	As of December 31, 2020			For the year ended December 31, 2020	
(in thousands)	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ **997**	$ **993**	$ **223**	$ **847**	$ **--**
Production and intermediate-term	**853**	**846**	**393**	**1,052**	**--**
Other	**30**	**29**	**25**	**29**	**--**
Total	$ **1,880**	$ **1,868**	$ **641**	$ **1,928**	$ **--**
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ **7,696**	$ **7,968**	$ **--**	$ **8,418**	$ **711**
Production and intermediate-term	**128**	**3,851**	**--**	**492**	**231**
Other	**719**	**894**	**--**	**797**	**2**
Total	$ **8,543**	$ **12,713**	$ **--**	$ **9,707**	$ **944**
Total impaired loans:					
Real estate mortgage	$ **8,693**	$ **8,961**	$ **223**	$ **9,265**	$ **711**
Production and intermediate-term	**981**	**4,697**	**393**	**1,544**	**231**
Other	**749**	**923**	**25**	**826**	**2**
Total	$ **10,423**	$ **14,581**	$ **641**	$ **11,635**	$ **944**

	As of December 31, 2019			For the year ended December 31, 2019	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 128	$ 119	$ 8	$ 126	$ --
Production and intermediate-term	1,850	1,815	710	2,840	--
Other	30	30	20	27	--
Total	$ 2,008	$ 1,964	$ 738	$ 2,993	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 6,453	$ 6,818	$ --	$ 6,360	$ 249
Production and intermediate-term	759	3,938	--	1,168	179
Other	835	1,005	--	732	20
Total	$ 8,047	$ 11,761	$ --	$ 8,260	$ 448
Total impaired loans:					
Real estate mortgage	$ 6,581	$ 6,937	$ 8	$ 6,486	$ 249
Production and intermediate-term	2,609	5,753	710	4,008	179
Other	865	1,035	20	759	20
Total	$ 10,055	$ 13,725	$ 738	$ 11,253	$ 448

	As of December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 254	$ 249	$ 16	$ 199	$ --
Production and intermediate-term	1,384	4,246	307	822	--
Other	--	--	--	--	--
Total	$ 1,638	$ 4,495	$ 323	$ 1,021	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$ 6,403	$ 6,703	$ --	$ 5,001	$ 276
Production and intermediate-term	1,972	2,383	--	1,172	424
Other	1,083	1,194	--	632	17
Total	$ 9,458	$ 10,280	$ --	$ 6,805	$ 717
Total impaired loans:					
Real estate mortgage	$ 6,657	$ 6,952	$ 16	$ 5,200	$ 276
Production and intermediate-term	3,356	6,629	307	1,994	424
Other	1,083	1,194	--	632	17
Total	$ 11,096	$ 14,775	$ 323	$ 7,826	$ 717

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

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

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

Troubled Debt Restructurings (TDRs)

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

We completed TDRs of certain other loans during the years ended December 31, 2020, and 2018. Our recorded investment in these loans just prior to restructuring was $196 thousand and $283 thousand during the years ended December 31, 2020, and 2018, respectively. Our recorded investment in these loans immediately following the restructuring was $194 thousand and $279 thousand during the years ended December 31, 2020, and 2018, respectively. The recorded investment is the unpaid principal amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct charge-off of the investment. We did not complete any TDRs during the year ended December 31, 2019.

The primary types of modifications were interest forgiveness and deferral of principal.

We had TDRs in the other loan category of $186 thousand that defaulted during the year ended December 31, 2020, in which the modifications were within twelve months of the respective reporting period. There were no TDRs that defaulted during the years ended December 31, 2019, or 2018 in which the modification was within twelve months of the respective reporting period.

TDRs Outstanding

(in thousands) As of December 31	**2020**	2019	2018
Total TDRs:			
Production and intermediate-term	**$ --**	$ --	$ 41
Other	**411**	244	266
Total TDRs	**$ 411**	$ 244	$ 307

All TDRs outstanding at December 31, 2020, 2019 and 2018 were in nonaccrual status. We had no material commitments to lend to borrowers whose loans have been modified in a TDR at December 31, 2020.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) For the year ended December 31	**2020**	2019	2018
Balance at beginning of year	**$ 7,693**	$ 4,458	$ 4,404
Provision for loan losses	**3,973**	3,275	76
Loan recoveries	**48**	106	25
Loan charge-offs	**(795)**	(146)	(47)
Balance at end of year	**$ 10,919**	$ 7,693	$ 4,458

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

Credit Loss Information on Unfunded Commitments

(in thousands) For the year ended December 31	**2020**	2019	2018
Provision for (reversal of) credit losses	**$ 58**	$ (27)	$ (7)
As of December 31	**2020**	2019	2018
Accrued credit losses	**$ 135**	$ 78	$ 105

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

(in thousands)	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2019	**$ 2,719**	**$ 2,909**	**$ 1,817**	**$ 248**	**$ 7,693**
Provision for (reversal of) loan losses	**2,516**	**330**	**1,204**	**(77)**	**3,973**
Loan recoveries	**18**	**17**	**--**	**13**	**48**
Loan charge-offs	**(72)**	**(710)**	**--**	**(13)**	**(795)**
Balance as of December 31, 2020	**$ 5,181**	**$ 2,546**	**$ 3,021**	**$ 171**	**$ 10,919**
Ending balance: individually evaluated for impairment	**$ 223**	**$ 393**	**$ --**	**$ 25**	**$ 641**
Ending balance: collectively evaluated for impairment	**$ 4,958**	**$ 2,153**	**$ 3,021**	**$ 146**	**$ 10,278**
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2020	**$ 950,562**	**$ 448,876**	**$ 296,898**	**$ 66,672**	**$ 1,763,008**
Ending balance: individually evaluated for impairment	**$ 8,692**	**$ 981**	**$ --**	**$ 750**	**$ 10,423**
Ending balance: collectively evaluated for impairment	**$ 941,870**	**$ 447,895**	**$ 296,898**	**$ 65,922**	**$ 1,752,585**

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2018	$ 1,404	$ 2,421	$ 431	$ 202	$ 4,458
Provision for loan losses	1,332	484	1,386	73	3,275
Loan recoveries	25	76	--	5	106
Loan charge-offs	(42)	(72)	--	(32)	(146)
Balance as of December 31, 2019	$ 2,719	$ 2,909	$ 1,817	$ 248	$ 7,693
Ending balance: individually evaluated for impairment	$ 8	$ 710	$ --	$ 20	$ 738
Ending balance: collectively evaluated for impairment	$ 2,711	$ 2,199	$ 1,817	$ 228	$ 6,955
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2019	$ 778,276	$ 434,344	$ 207,089	$ 67,035	$ 1,486,744
Ending balance: individually evaluated for impairment	$ 6,581	$ 2,609	$ --	$ 865	$ 10,055
Ending balance: collectively evaluated for impairment	$ 771,695	$ 431,735	$ 207,089	$ 66,170	$ 1,476,689

	Real Estate Mortgage	Production and Intermediate-Term	Agribusiness	Other	Total
Allowance for loan losses:					
Balance as of December 31, 2017	$ 1,133	$ 2,821	$ 275	$ 175	$ 4,404
Provision for (reversal of) loan losses	267	(387)	156	40	76
Loan recoveries	7	16	--	2	25
Loan charge-offs	(3)	(29)	--	(15)	(47)
Balance as of December 31, 2018	$ 1,404	$ 2,421	$ 431	$ 202	$ 4,458
Ending balance: individually evaluated for impairment	$ 16	$ 307	$ --	$ --	$ 323
Ending balance: collectively evaluated for impairment	$ 1,388	$ 2,114	$ 431	$ 202	$ 4,135
Recorded investment in loans outstanding:					
Ending balance as of December 31, 2018	$ 682,451	$ 444,696	$ 128,056	$ 83,507	$ 1,338,710
Ending balance: individually evaluated for impairment	$ 6,657	$ 3,356	$ --	$ 1,083	$ 11,096
Ending balance: collectively evaluated for impairment	$ 675,794	$ 441,340	$ 128,056	$ 82,424	$ 1,327,614

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

NOTE 4: INVESTMENT IN AGRIBANK

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

We are also required to hold AgriBank stock related to our participation in a pool program**.** 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: INVESTMENT SECURITIES

We held investment securities of $590 thousand, $982 thousand and $1.7 million at December 31, 2020, 2019 and 2018, respectively. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA).

The investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. For the years ended December 31, 2020, 2019 and 2018, we have not recognized any impairment on our investment portfolio.

Additional Investment Securities Information

(dollars in thousands) As of December 31	2020	2019	2018
Amortized cost	**$ 590**	$ 982	$ 1,663
Unrealized gains	**13**	28	58
Fair value	**$ 603**	$ 1,010	$ 1,721
Weighted average yield	**4.2%**	5.8%	5.2%

Investment income is recorded in "Interest income" in the Consolidated Statements of Comprehensive Income and totaled $18 thousand, $13 thousand and $72 thousand in 2020, 2019 and 2018, respectively.

NOTE 6: NOTE PAYABLE TO AGRIBANK

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

Note Payable Information

(dollars in thousands) As of December 31	2020	2019	2018
Line of credit	**$ 1,600,000**	$ 1,600,000	$ 1,300,000
Outstanding principal under the line of credit	**1,433,565**	1,181,941	1,058,397
Interest rate	**1.5%**	2.7%	2.8%

Our note payable is scheduled to mature on August 31, 2022. We intend to renegotiate the note payable no later than the maturity date.

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

NOTE 7: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, the Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Regulatory Capitalization Requirements

Regulatory Capital Requirements and Ratios

As of December 31	2020	2019	2018	Regulatory Minimums	Capital Conservation Buffer	Total
Risk-adjusted:						
Common equity tier 1 ratio	**16.8%**	18.0%	18.5%	4.5%	2.5%	7.0%
Tier 1 capital ratio	**16.8%**	18.0%	18.5%	6.0%	2.5%	8.5%
Total capital ratio	**17.3%**	18.4%	18.8%	8.0%	2.5%	10.5%
Permanent capital ratio	**16.9%**	18.1%	18.6%	7.0%	N/A	7.0%
Non-risk-adjusted:						
Tier 1 leverage ratio	**18.1%**	19.5%	19.7%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	**19.0%**	20.2%	20.3%	1.5%	N/A	1.5%

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

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

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

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

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

Description of Equities

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

	Number of Shares		
As of December 31	**2020**	2019	2018
Class A common stock (protected)	**--**	199	199
Class C common stock (at-risk)	**595,633**	563,372	545,205
Participation certificates (at-risk)	**22,899**	25,340	22,578

Under our bylaws, we are also authorized to issue Class B common stock and Class D common stock. Each of these classes of stock is at-risk and nonvoting. Class B common stock has a $5.00 par value per share and the Class D common stock has a $1,000 par value per share. Currently, no stock of these classes has been issued. We are no longer authorized to issue Class A common stock.

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

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

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

- first, pro rata to holders of common stock and participation certificates
- second, any remaining assets of the Association after such distribution shall be distributed to present and former patrons on a patronage basis, to the extent practicable

Any impairment of capital stock shall be treated as impairing all shares of common stock and participations certificates pro rata.

All classes of stock are transferable to other customers who are eligible to hold such classes of stock. Transfers of stock are only allowed when we meet minimum regulatory capital requirements.

Patronage Distributions

We accrued patronage distributions of $6.0 million, $5.0 million and $3.9 million at December 31, 2020, 2019 and 2018, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

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

NOTE 8: INCOME TAXES

Provision for Income Taxes

Provision for Income Taxes

(dollars in thousands)

For the year ended December 31		**2020**		2019		2018
Current:						
Federal	**$**	**532**	$	814	$	722
State		**201**		363		241
Total current	**$**	**733**	$	1,177	$	963
Deferred:						
Federal	**$**	**9**	$	(145)	$	(67)
State		**3**		(48)		(22)
Total deferred		**12**		(193)		(89)
Provision for income taxes	**$**	**745**	$	984	$	874
Effective tax rate		**2.0%**		3.3%		3.1%

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

(in thousands)

For the year ended December 31		**2020**		2019		2018
Federal tax at statutory rates	**$**	**7,696**	$	6,355	$	5,916
State tax, net		**143**		191		171
Patronage distributions		**(1,260)**		(1,050)		(819)
Effect of non-taxable entity		**(5,852)**		(4,524)		(4,398)
Other		**18**		12		4
Provision for income taxes	**$**	**745**	$	984	$	874

Deferred Income Taxes

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

Deferred Tax Assets and Liabilities

(in thousands)

As of December 31		**2020**		2019		2018
Allowance for loan losses	**$**	**1,220**	$	1,024	$	695
Postretirement benefit accrual		**131**		132		135
Deferred fee income, net		**31**		--		--
Accrued incentive		**169**		272		156
Accrued patronage income not received		**(196)**		(183)		--
AgriBank 2002 allocated stock		**(165)**		(165)		(165)
Accrued pension asset		**(371)**		(316)		(249)
Depreciation		**(164)**		(96)		(108)
Other liabilities		**(157)**		(158)		(147)
Deferred tax assets, net	**$**	**498**	$	510	$	317
Gross deferred tax assets	**$**	**1,551**	$	1,428	$	986
Gross deferred tax liabilities	**$**	**(1,053)**	$	(918)	$	(669)

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

We have not provided for deferred income taxes on patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. Our total permanent investment in AgriBank is $9.6 million. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $280.6 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

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

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

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

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

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This plan is noncontributory and covers certain eligible District employees. The assets, liabilities and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan. Because of the nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee transfers to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

AgriBank District Retirement Plan Information

(in thousands)

As of December 31	**2020**	2019	2018
Unfunded liability	**$ 169,640**	$ 220,794	$ 274,450
Projected benefit obligation	**1,563,421**	1,421,126	1,272,063
Fair value of plan assets	**1,393,781**	1,200,332	997,613
Accumulated benefit obligation	**1,426,270**	1,298,942	1,125,682

For the year ended December 31	**2020**	2019	2018
Total plan expense	**$ 42,785**	$ 36,636	$ 51,900
Our allocated share of plan expenses	**638**	552	697
Contributions by participating employers	**90,000**	90,000	90,000
Our allocated share of contributions	**1,290**	1,276	1,187

The unfunded liability reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these Consolidated Financial Statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The accumulated benefit obligation is the actuarial present value of the benefits attributed to employee service rendered before the measurement date and based on current employee service and compensation. The funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Our allocated share of plan expenses is included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income.

Benefits paid to participants in the District were $70.9 million in 2020. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plan during 2021 is $90.0 million. Our allocated share of these pension contributions is expected to be $1.3 million. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

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

Pension Restoration Plan Information

(in thousands) As of December 31		2020		2019		2018
Our unfunded liability	**$**	**2,006**	$	1,385	$	921

For the year ended December 31		2020		2019		2018
Our allocated share of plan expenses	**$**	**230**	$	120	$	133

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

Costs are determined for each individual employer based on costs directly related to their participants in the plan. Our allocated share of the components of net periodic benefit cost other than the service cost component, are included in "Other operating expense" in the Consolidated Statements of Comprehensive Income. Service costs related to the plan are included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The Pension Restoration Plan is unfunded. We have a Rabbi Trust to fund our future liability under this plan. A Rabbi Trust is a trust created for the purpose of supporting the nonqualified benefit obligation of employers to their employees. There were no benefits paid under the Pension Restoration Plan to our senior officers who were actively employed during the year.

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

Defined Contribution Plans

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

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

Employer contribution expenses for the defined contribution plan, included in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income, were $423 thousand, $389 thousand and $349 thousand in 2020, 2019 and 2018, respectively. These expenses were equal to our cash contributions for each year.

NOTE 10: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members and other organizations with which such persons may be associated. Such transactions may be subject to special approval requirements contained in the FCA Regulations and are made on the same terms, including interest rates, amortization schedules and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2020, involved more than a normal risk of collectability.

Related Party Loans Information

(in thousands) As of December 31		2020		2019		2018
Total related party loans	**$**	**34,983**	$	13,879	$	15,564
For the year ended December 31		**2020**		2019		2018
Advances to related parties	**$**	**35,063**	$	12,523	$	13,419
Repayments by related parties		**29,010**		19,851		11,513

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

As discussed in Note 6, we borrow from AgriBank, in the form of a line of credit, to fund our loan portfolio. All interest expense as shown on the Consolidated Statements of Comprehensive Income was paid to AgriBank.

Total patronage received from AgriBank was $8.5 million, $7.0 million and $6.2 million in 2020, 2019 and 2018, respectively. Patronage income for 2019 was paid in cash and AgriBank stock. Patronage income for 2020 and 2018 was paid in cash.

In addition, we received compensation from AgriBank for servicing loans of $76 thousand, $40 thousand and $49 thousand in 2020, 2019 and 2018, respectively.

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

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

Additional Related Party Information

(in thousands)

As of December 31		**2020**		2019		2018
Investment in AgriBank	**$**	**38,276**	$	32,968	$	27,449
Investment in SunStream		**329**		--		--
Investment in Foundations		**13**		13		13
For the year ended December 31		**2020**		2019		2018
AgriBank District purchased services	**$**	**884**	$	911	$	866

NOTE 11: CONTINGENCIES AND COMMITMENTS

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

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

We have commitments to extend credit and letters of credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk that may be recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. Standby letters of credit are agreements to pay a beneficiary if there is a default on a contractual arrangement. At December 31, 2020, we had commitments to extend credit and unexercised commitments related to standby letters of credit of $384.7 million. Additionally, we had $2.7 million of issued standby letters of credit as of December 31, 2020.

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

NOTE 12: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring

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

Assets Measured at Fair Value on a Non-Recurring Basis

(in thousands)

As of December 31, 2020	Fair Value Measurement Using						
		Level 1		Level 2		Level 3	Total Fair Value
Impaired loans	**$**	**--**	**$**	**--**	**$**	**1,301**	**$ 1,301**

As of December 31, 2019	Fair Value Measurement Using						
		Level 1		Level 2		Level 3	Total Fair Value
Impaired loans	$	--	$	--	$	1,333	$ 1,333

As of December 31, 2018	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	Total Fair Value
Impaired loans	$ --	$ --	$ 1,381	$ 1,381

Valuation Techniques

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

NOTE 13: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 12, 2021, which is the date the Consolidated Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in our 2020 Consolidated Financial Statements or disclosure in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

AgHeritage Farm Credit Services, 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
Little Rock	Leased	Headquarters
Batesville	Leased	Branch
Brinkley	Owned	Branch
Lonoke	Owned	Branch
McGehee	Owned	Branch
Newport	Owned	Branch
Pine Bluff	Leased	Branch
Pocahontas	Owned	Branch
Searcy	Owned	Branch
Stuttgart	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 11 to the Consolidated Financial Statements in this Annual Report. We were not subject to any enforcement actions as of December 31, 2020.

Additional Regulatory Capital Disclosure

Regulatory Capital Ratios Pursuant to FCA Regulation 620.5

As of December 31	2015	2014	2013	2012
Permanent capital ratio	19.9%	18.9%	18.1%	17.9%
Total surplus ratio	19.6%	18.6%	17.8%	17.5%
Core surplus ratio	19.6%	18.6%	17.8%	17.5%

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

Description of Capital Structure

Information regarding our capital structure is discussed in Note 7 to the Consolidated Financial Statements in this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 6, 7, 8, 9 and 11 to the Consolidated Financial Statements in this Annual Report. All debt and other liabilities in the financial statements are uninsured.

Selected Financial Data

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

Management's Discussion and Analysis

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

Board of Directors

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

The **Audit Committee** oversees financial reporting, the adequacy of our internal control systems, the scope of the Association's internal audit program, the independence of the outside auditors and the processes for monitoring compliance with laws and regulations. The Audit Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

The **Finance Committee** monitors our financial and capital planning, asset/liability management and funding and investment activities. Committee members serve as a resource to the Board by maintaining a more in-depth knowledge of our financial activities.

The **Executive Committee** addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, administers a process for maintaining and periodically reviewing board policies and administers a planning process focused upon achieving our mission and maintaining a viable, competitive institution. The committee is authorized to take action on behalf of the Board on matters requiring board approval between normally scheduled board meetings, when necessary. Such authorization is to be reviewed and acted upon at the next board meeting.

The **Human Resources Committee** oversees and provides overall direction and/or recommendations for compensation, benefits and human resource performance management programs.

The **Member Relations Committee** provides direction on the Association's agriculture public policy position at the local, state and national level. Committee members serve as a resource for maintaining high quality member relations/involvement programs, board involvement of market and customer needs and in developing programs to attract young and beginning and next generation farmers.

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

Name	Term	Principal occupation and other business affiliations
Dwain Morris Chairperson Service Began: 1991	2018-2022	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** President: 4-D Farms Board member of Randolph County Farm Bureau
Jerry Burkett Vice Chairperson Service Began: 2002	2017-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Museum of the Arkansas Grand Prairie Board member of Arkansas County Farm Bureau
Russell Bonner Service Began: 2006	2018-2022	**Principal Occupation:** Self-employed grain farmer
Dow Brantley Service Began: 2020	2020-2024	**Principal Occupation:** Self-employed grain and cotton farmer Grain merchant Board member of Lonoke County Farm Bureau Board member of Arkansas Rice Federation Board member of Arkansas Rice Council Board member of USA Rice Federation Board member of USA Rice International Trade Policy Board member of Agriculture Policy Advisory Committee for USDA and USTR Board member of Arkansas Ag Council
Jesse Briggs Service Began: 2017	2020-2024	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Farelly Lake Levee District
Mike Burkett Service Began: 2006	2017-2021	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Woodruff County Farm Bureau
Ray C. "Chuck" Culver III Outside Director Service Began: 1992	2020-2024	**Principal Occupation:** Institutional Development & External Relations Director, Division of Agriculture at the University of Arkansas System
Mark Isbell Service Began: 2020	2020-2024	**Principal Occupation:** Self-employed grain farmer **Other Affiliations:** Board member of Arua Intelligence Board, an ag data analytics company Board member of Field to Market Board

Name	Term	Principal Occupation and Other Affiliations
Sandra Morgan	2018-2022	**Principal Occupation:**
Outside Director		Vice President and Chief Financial Officer at Riceland Foods, Inc.
Service Began: 2015		
Jeff Rutledge	2019-2023	**Principal Occupation:**
		Self-employed grain farmer
		Other Affiliations:
		Vice chairman of USA Rice Council Board
		Board member of Arkansas Rice Research and Promotion Board
		Board member of Arkansas Rice Council Board
		Board member of Arkansas Rice Federation Board
		Board member of Newport Levee Board
		Board member of Jackson County Farm Bureau Board
		Board member of Newport School Board
Service Began: 2017		Board member of Ag Council Arkansas Waterways Commission Board
Clay Schaefer	2019-2023	**Principal Occupation:**
		Self-employed grain farmer
		Other Affiliations:
		Board member of Riceland Foods, Inc.
Service Began: 2011		Board member of Tri-County Farmers Association
Scott Young	2017-2021	**Principal Occupation:**
		Self-employed grain and timber farmer
		Partner in Dogwood Farms
		President and shareholder in Jim Young Farms, Inc.
		Other Affiliations:
Service Began: 2013		Board member of Ashley County Farm Bureau

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. Our Board of Directors has adopted a rate of $600 per day and $100 per conference call. Board members also received a $4,000 annual retainer fee, except for the Board Chairperson and Vice Chairperson, who receive a retainer fee of $7,000 and $5,500, respectively, for their additional duties as Board Chairperson and Vice Chairperson. Effective January 1, 2021, the daily rate increased to $750 per day. The conference call rate increased to $150 per conference call. The annual retainer fee paid to Board members also increased to $5,000, except for the Board Chairperson, Vice Chairperson and Audit Committee Chair, who receive a retainer fee of $9,000, $7,500 and $2,500, respectively.

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

	Number of Days Served		Compensation Paid for		
Name	Board Meetings	Other Official Activities	Service on a Board Committee	Name of Committee	Total Compensation Paid in 2020
Russell Bonner	8.0	7.5	$ 1,300	Audit ($1,200), Executive ($100)	$ 13,800
Dow Brantley[2]	3.0	1.0	300	Finance ($300)	5,067
Jesse Briggs	8.0	4.5	300	Finance ($300)	11,600
Jerry Burkett	9.0	12.5	1,200	Audit ($900), Finance ($300)	20,150
Mike Burkett	9.0	0.0	100	HR ($100)	9,600
Ray C. "Chuck" Culver III	9.0	0.0	--		9,500
Mark Isbell[2]	3.0	1.0	300	Finance ($300)	5,067
Sandra Morgan	8.0	7.5	1,400	Audit ($1,300), HR ($100)	14,000
Dwain Morris	9.0	13.0	800	Audit ($700), HR ($100)	22,200
Jeff Rutledge	9.0	6.0	900	Audit ($900)	14,100
Clay Schaefer	8.0	7.0	200	Executive ($100), HR ($100)	13,300
Michael D. Taylor[1]	6.0	5.0	800	Audit ($800)	8,333
Keith Watkins[1]	6.0	4.0	--		7,433
Scott Young	9.0	0.0	100	HR ($100)	9,600
					$ 163,750

[1]Term ended April 2020

[2]Elected to the Board during 2020

Senior Officers

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

Name and Position	Business experience and other business affiliations
Gregory W. Cole President/Chief Executive Officer	**Business experience:** President/Chief Executive Officer since April 2008
Kenneth L. Sumner SVP/Chief Financial Officer	**Business experience:** SVP/Chief Financial Officer since August 2009 **Other business affiliations:** Board Treasurer of Wade Knox Child Advocacy Center, a local charity Treasurer of Arkansas Waterfowl Association, a not-for-profit organization that raises funds to support local charities and to provide outdoor opportunities for children who would not have the opportunity otherwise
Drue Ford SVP/Chief Credit Officer	**Business experience:** SVP/Chief Credit Officer since October 2006
Cole Plafcan SVP/Chief Lending and Marketing Officer	**Business experience:** SVP/Chief Lending and Marketing Officer since March 2017 VP of Lending and Branch Manager from 1999 to March 2017
Leslie J. Brown VP Chief Human Capital Officer	**Business experience:** VP Chief Human Capital Officer since February 2015 **Other business affiliations:** Treasurer of Arkansas Compensation Association, which provides information and leadership to compensation professionals
Blake Swindle SVP/Chief Commercial Lending Officer	**Business experience:** SVP/Chief Commercial Lending Officer since March 2020 VP of Agribusiness Lending from 2015 to March 2020

Senior Officer Compensation

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

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

Base Salary: The CEO, senior officers and highly compensated individuals base salaries reflect the employee’s experience and level of responsibility. Compensation plans for all employees, except the CEO, are subject to review and approval by the Human Resources Committee of our Board of Directors. Information is accumulated regarding competitive market conditions and used in assessing adequate compensation for all employees. The CEO’s salary is reviewed and approved by the Board of Directors.

Short-term Incentives: The short-term incentive plan available only to the CEO and senior officers is paid annually based on performance criteria approved by our Human Resources Committee of the Board of Directors. The criteria related to the overall association performance include return on assets, loan volume, capital ratios, surplus, operating rate, credit quality, credit administration, adverse assets to risk funds, borrower concentration and customer satisfaction. Additional criteria related to personal performance include attainment of personal objectives and overall performance rating. We calculate the incentives after the end of the plan year (the plan year is the calendar year) and pay out the incentives within 60 days of year-end. There were no material amendments to the plan during the last fiscal year. Highly compensated employees’ short-term incentive plan is based on an adjusted pre-tax net income and the employee’s individual performance. Individual performance includes a variety of objectives, including credit quality, fees, growth and job competencies. There were no material changes to the plan during the last fiscal year.

Other incentives: We have a retention incentive available to all employees, including the CEO, senior officers and highly compensated individuals. The incentive is paid with an annual component and a long-term component, subject to the participant’s employment after three years. Eligibility to participate in this incentive program includes the employee’s most recent performance as well as specialized knowledge and strategic role of his/her position. Due to the retention nature of this incentive, it is reported in the compensation table, on the following page, in the period paid. In addition, we have a sales incentive plan that is available to all full-time branch employees. The incentives are paid for sales of insurance and leasing products, are paid monthly and are subject to the cap set by FCA.

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 9 to the accompanying Consolidated Financial Statements.

Other Components of Compensation: Additionally, compensation associated with any company-paid vehicles, group term life insurance premiums, disability insurance premiums or other on-the-spot incentives such as gift cards, may be made available to the CEO, senior officers and highly compensated individuals based on job criteria or similar plans available to all employees.

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

(in thousands) Name	Year		Salary		Bonus		Deferred/ Perquisites		Other		Total
Gregory W. Cole, CEO	**2020**	**$**	**446**	**$**	**223**	**$**	**7**	**$**	**915**	**$**	**1,591**
Gregory W. Cole, CEO	2019		421		210		5		1,005		1,641
Gregory W. Cole, CEO	2018		397		198		5		111		711
Aggregate Number of Senior Officers and Highly Compensated Individuals, excluding CEO											
Five	**2020**	**$**	**827**	**$**	**321**	**$**	**25**	**$**	**84**	**$**	**1,257**
Five	2019		778		293		17		208		1,296
Five	2018		730		280		16		131		1,157

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

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

- Employer match on defined contribution plans available to all employees.
- Changes in the value of pension benefits. The change in value of the pension benefits is defined as the change in the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year to December 31 of the most recent year for the District-wide Pension Plan and the Pension Restoration Plan, as applicable, as disclosed in Note 9 to the Consolidated Financial Statements in this Annual Report. This change in value does not represent cash payments made by the Association during the year, but rather is an estimate of the change in the Association's future obligations under the pension plans. The change in the value of the pension benefits is highly sensitive to discount rates used to value the plan liabilities to participants.

No tax reimbursements are made to the CEO, senior officers or highly compensated individuals.

The value of the pension benefits increased from December 31, 2019, to December 31, 2020, primarily due to the decrease in interest rates year over year. The value of the pension benefits was also impacted to a lesser extent by the accumulation of an additional year of credited service by plan participants and updates to actuarial assumptions.

Pension Benefits Attributable to the CEO and Senior Officers

(dollars in thousands) **2020** Name	Plan	Years of Credited Service		Present Value of Accumulated Benefits		Payments Made During the Reporting Period
Gregory W. Cole, CEO	AgriBank District Retirement Plan	**37.9**	**$**	**3,533**	**$**	**--**
Gregory W. Cole, CEO	AgriBank District Pension Restoration Plan	**37.9**		**1,193**		**--**
Aggregate Number of Senior Officers, excluding CEO						
Three	AgriBank District Retirement Plan	**20.6**	**$**	**797**	**$**	**--**

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

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

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

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 10 to the Consolidated Financial Statements in this Annual Report.

Travel, Subsistence and Other Related Expenses

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

119 East Third Street, Suite 200
Little Rock, AR 72201
(800) 299-2290
www.agheritagefcs.com

The total directors' travel, subsistence and other related expenses were $77 thousand, $112 thousand and $131 thousand in 2020, 2019 and 2018, respectively.

Involvement in Certain Legal Proceedings

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

Member Privacy

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

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total financial statement audit fees paid during 2020 were $84 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

AgHeritage Farm Credit Services, ACA

(Unaudited)

We have specific programs in place to serve the credit and related needs of young, beginning and small farmers and ranchers (YBS) 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.

Demographics

We have compared counts of our YBS borrowers against the 2017 Ag Census data. The census reports at a county level the age, years on farm and gross receipts. Some of the census categories are not perfect comparisons for our YBS reporting methodology. The Ag Census' Small comparison is most similar, as the Ag Census counts the population of farms with sales less than $250 thousand. The Young category is the next best comparison by reporting operations with Principal Producer less than 35 years of age, while YBS parameters include those 35 years of age or less. Finally, the Beginning category is least similar. The Ag Census does not quantify years of experience, but it does report a "New and Beginning" category with Principal Producer with Years on Any Operation into a category of Less than 11 Years. While not an exact comparison for YBS Beginning category, it is used as the best comparison available. Finally, the two disparate populations pose another analysis challenge. The census measures the total population regardless of borrowing characteristics, while we operate within a sub-group of the Ag Census based on farmers who both finance their operation and who finance with AgHeritage Farm Credit Services, ACA.

The following chart compares our 2020 YBS customers to the 2017 Ag Census:

Total Farms	Census < 10 Years	AgHeritage Beginning	% of Census Category
12,122	4,632	2,025	43.7%

Census < 35 Years	AgHeritage Young	% of Census Category
1,299	1,114	85.8%

Census Sales < 250k	AgHeritage Young	% of Census Category
10,523	2,339	22.2%

The 2017 Ag Census total number of farms in the AgHeritage LSA (local service area) is 12,122. This is a decline from the 12,882 total number of farms in the 2012 Ag Census for the AgHeritage LSA. The 2012 versus 2017 Ag Census for our LSA showed increases in the Ag Census number of Young and Beginning farms and a decrease in the number of Small farms. Small farms in the 1997-2017 trend showed small annual increases over the previous Ag Census in 2002 and 2007 (7% and 3%) followed by a 13% decline in 2012 and a 4% decline in 2017. Beginning farms had increases over the previous Ag Census in 2002 and 2007 (7% and 8%), a large decline (75%) in 2012 followed by a 44% increase in 2017. For Young (New) farms, there were decreases from the prior Ag Census in 2002, 2007 and 2012 (7%, 3% and 12%) with an increase in the 2017 Ag Census of 36%.

The AgHeritage trend in Young borrowers for 2003 through 2020 was steady annual increases of 1-20% through 2012. Starting in 2013 the number of Young borrowers began to decrease between 4-10% per year. From 2016 through 2018, the number of Young borrowers remained stable. 2019 saw a 7% increase in Young borrowers over 2018, followed by a 5% increase in 2020 over 2019. Beginning borrowers also increased in most years from 2003 through 2014, with increases ranging from 1-19% annually. In 2015 through 2017, Beginning borrowers decreased in a range of 2.2-6.6%. In 2018 through 2020, Beginning borrowers increased in range of 1.6% to 5.3%. Small borrower numbers have been more volatile, ranging from slight decreases (≤ 3%) in most early years, except for a 13% decrease in 2006 to a 15% increase in 2009. The most recent period, 2013-2017, saw decreases ranging from 1.3% to 9.5%, while 2018 through 2020 saw increases in Small borrowers ranging 6.4% to 10.6%.

Mission Statement

Management and the Board of Directors feel that it is strategically important to support and develop YBS programs. Our YBS Farmer Program mission is to develop and implement programs to attract Young, Beginning and Small and next generation farmers and to strive to reach numeric goals for YBS customers.

Quantitative Goals
(dollars thousands)

	2020 Goals		2020 Actual Results		2021 Goals		2022 Goals		2023 Goals	
	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume	# Loans	Volume
Young	1,050	$ 220,000	1,080	$ 301,679	1,060	$ 240,000	1,080	$ 250,000	1,100	$ 260,000
Beginning	1,900	450,000	1,910	546,290	1,900	470,000	1,910	490,000	1,920	510,000
Small	1,900	225,000	1,970	295,808	1,950	225,000	1,970	245,000	1,990	265,000

Qualitative Goals

The following related services were offered to YBS farmers during 2020:

- crop insurance, both hail and multi-peril
- life insurance
- fee real estate appraisal services
- equipment and facility leasing

We made use of federal loan guarantee programs in providing loans and leases to YBS farmers. We maintain a Preferred Lender Program designation with the Farm Service Agency.

Outreach Programs

In addition to loans made to YBS and Next Generation borrowers, our annual YBS reports have consistently shown active participation in a variety of YBS outreach efforts. These efforts include both staff time and monetary sponsorship through the following:

We encourage the use of Young and Beginning farmer programs like those offered by the Farm Service Agency and the Cooperative Extension Service.

We continue to sponsor an annual scholarship program for college bound or current college students with one winner from each branch office.

We continue to sponsor and participate in the annual Arkansas State University (ASU) Ag Business Conference and the University of Arkansas (UA) – Division of Agriculture's Women in Ag Conference.

We support the Arkansas Farm Family of the Year program. We have enjoyed having members each year who are honored at the local and state level by the Farm Family of the Year program. Implicit in the Farm Family of the Year is the next generation of farming. The honored families are typically multi-generational and include members who frequently fit within our YBS and Next Generation Farmer parameters.

We co-host a biennial Arkansas State-wide FCS Young Beginning Farmer Conference. This is a joint effort among all Arkansas Farm Credit associations. The conference was designed to provide attendees the opportunity to network with their peers and experienced professionals in finance, credit and economics. State and national expert speakers cover topics that impact YBS producers, including the current economic outlook, strategic business planning and financial and risk management.

We sponsor and/or participate in a variety of other Young, Beginning and Small outreach activities including:

- AgHeritage and other Arkansas Farm Credit Associations sponsor, support and participate in various Arkansas Grown activities. Arkansas Grown is an initiative of the Arkansas Department of Agriculture including:
    - Garden Program contest for Arkansas school gardens
    - Local Conversations brings together stakeholders to improve the quality of food reaching consumers
    - Arkansas Grown Magazine
    - Farmers Market Promotion Program
    - Farm2Home
- ASU Student Leadership Conference
- Cooperative Extension Farm Safety Day
- Arkansas Women in Agriculture – sponsorship and attendance of conference and Annie's Project
- University Agriculture Department Scholarship Fundraisers – UA and ASU
- National Black Growers Council – speaker at National Black Growers Council Annual Meeting and sponsorship/participation at the local National Black Growers Council Model Field Day
- Arkansas Farm Family of the Year Program
- Yearly contributions to FFA and 4-H
- AgHeritage Next Generation Farmer Program
- AgHeritage Farm Credit Services Customer Scholarship Program / University Scholarship / Ken Shea Scholarship
- Junior Livestock Auction: State Fair Belt Buckle Sponsorship and Sale of Champions Sponsorship; Local Fair Livestock Sponsorships
- County Extension Meeting Sponsorships: Crop Production, Marketing, Beef, etc.
- Exhibit/Sponsorships/Attendance:
    - Arkansas Farm Bureau Annual Convention
    - Arkansas Foundation for Agriculture
    - Agricultural Council of Arkansas

- Midsouth Gin Show
- Arkansas Cattlemen’s Conference; Local Conference
- Arkansas Agricultural Aviation Association
- Poultry Festival
- USA Rice Outlook Conference
- Crossett Rodeo Arena Sponsorship
- Black Rock Technical College Foundation Scholarship Golf Tournament
- Arkansas Soybean Association Annual Meeting
- Arkansas Rice Council/Producers Annual Meeting
- Mid-South Chapter of the American Society of Farm Managers and Rural Appraisers
- Various local county fair associations: Belt Buckle Award sponsor
- Various rural community sports league sponsorships
- Farm appreciation lunches

Safety and Soundness of the Program

We will limit the amount of risk classified loans that meet the Next Generation Farmer and/or YBS qualifications. The amount of volume for either will not exceed 25% of the Association’s risk funds. This limit is cumulative and not to be exceeded at any point.

The credit quality guidelines and quarterly monitoring ensure that credit offered to the YBS and Next Generation Farmer groups is provided in a safe and sound manner within our risk-bearing capacity.

FUNDS HELD PROGRAM

AgHeritage Farm Credit Services, ACA
(Unaudited)

AgHeritage Farm Credit Services, ACA (the Association), offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate and intermediate-term loans. The following terms and conditions apply to all Funds Held unless the loan agreement or related documents, between the Association and customer, provide for other limitations.

Payment Application: Loan payments received by the Association before the loan has been billed will be placed into Funds Held upon request 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.

When a loan installment becomes due, amounts 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 amount in Funds Held may not exceed 50% of each eligible loan. Eligible loans do not include operating lines of credit.

Interest Rate: Interest will accrue on Funds Held at a simple rate of interest that may be changed by the Association from time to time based upon the current interest rate environment. The interest rate may never exceed the interest rate charged on the related loan. Interest rates are currently reported on each customer's loan statement. Subject to change as previously stated, the current rate of interest is equal to the Federal Funds rate of interest as determined by the Federal Open Market Committee. If the Federal Funds rate is stated as a range, the rate of interest will be set within the range.

Withdrawals: Amounts in Funds Held may be withdrawn under the following conditions, depending on the customer's loan program:

- Customers can withdraw funds without a limit as to the number of withdrawals, however the loan officer must approve the withdrawal after receipt of a written customer request. Withdrawals must be for an eligible purpose under the Funds Held program. The minimum withdrawal amount is $100, unless the customer is withdrawing the full Funds Held balance.

- Customers required to assign income to their loan, such as poultry and dairy assignments, may withdraw amounts in excess of their next installment.

Association Options: In the event of default on any loan or if Funds Held exceeds the maximum limit as established above or if the Association discontinues the 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.

Liquidation: Funds Held account balances are not insured. In the event of Association liquidation, all customers having balances in these uninsured accounts shall be notified according to FCA Regulations in effect at that time. Current applicable regulations state that the notice shall instruct that the funds ceased earing interest when the receivership was instituted and will be applied against the outstanding indebtedness of any loans of the customer unless, within 15 days' notice, the customer provides direction to the Association to apply the funds according to existing loan documents.

Questions: Please direct any questions regarding Funds Held to AgHeritage Farm Credit Services, ACA.

LIFE ON THE REIDHAR FARMS
Anchored In Faith, Home And Humor

By Ashley Wimberley

Among the leaders in rice, soybean and corn production in Arkansas's Grand Prairie, Des Arc's Reidhar family have found great success over the years in three separate innovative farm operations based firmly on old-fashioned principles – hard work, determination to get the highest production from every acre – and a good banker.

John and Christine Reidhar and their sons, Johnny and Jeffrey, operate independently, but share a love for what they do, as well as appreciation for their lender, AgHeritage Farm Credit Services.

John took his first loan with Farm Credit (then Production Credit Association, or PCA) in 1972. But long before that, he truly did things the old-fashioned way – starting small and growing, little by little, paying his way as he went.

"I knew I wanted to farm from the time I was 16," he said.

His dad told him if he worked a 20-acre piece of ground, he would plant it for him. "So I worked it up, dad planted and harvested it, and I took the money from that and bought a steer."

He put the steer in the Prairie County Livestock Show and sold it. "I took the money and paid half on a John Deere H Model tractor with a two-row cultivator. I worked it during that summer, and, what time I was off from dad's operation, I plowed beans for a plantation and paid off the balance of the tractor."

John and Christine met at Des Arc school in the fourth grade and married in 1964. Johnny came along in 1970, and Jeffrey in 1973.

In about 1970, John became totally dedicated to his farm career. In 1977, he started buying land in about 40-acre segments. "What I would do, in my mind, I would take what it would take to produce that farm crop out of my other acres, and let the gross proceeds from the land I bought go on the payment. It didn't work that way exactly, but that's what I had in my mind. I ended up farming about 5,000 acres."

Christine grew up on Southwest Land Company, farmed by her father and grandfather. Today, son Johnny farms that same land. "I chopped cotton on that land when I was a girl," she said. "I am so thankful that my grandkids get to grow up on the same farm that I did. Johnny, Jeffrey and their families both live less than a mile away, and John and I live right in between them. The cousins are more like siblings. We spend a lot of time together."

Johnny's operation now includes 2950 acres – 1000 in rice, about 200 in corn and the remainder in soybeans.

Jeffrey farms 3902 acres, with 1200 in rice, 500 in corn and the remainder in soybeans. He, too, enjoys the lifestyle. "It would be

Members of the Reidhar family (back row, left to right): Rachel, Meredith, Jed, Julie, Jeffrey, Johnny, Janice, Jake, Natalie, Lindsey and Jacques. Seated in front: John and Christine.

hard to be in an office after growing up outdoors on the land," he said. "I like looking back at what I've accomplished at the end of the day – both failures and successes. There is immediate gratification."

They laughed as they agreed on advice to a younger farmer: "Have a good banker. A banker understands how volatile farming is."

Both brothers got their first loans from AgHeritage Farm Credit Services. "Farm Credit has always been right there anytime I wanted to do anything," Jeffrey said. "They are involved in the community and support our schools. They are a good community citizen."

"If it hadn't been for Farm Credit Services, I wouldn't be in the financial condition I'm in now," John said. "They understand farming."

"You reduce your risk when you partner with a good bank," Johnny added. "I agree Farm Credit will do anything they can to help. They stop just short of offering to put in floodgates," he added, to laughter from all.

Faith is of the ultimate importance to all of the Reidhar family. John said there have been a lot of influences in his life and career, but the greatest, by far, is his relationship with Jesus. "When we're needing a rain or maybe we've had too much rain, I remind myself – the Lord knows more about what I need than I do," he said.

"Prayer is a big part of all our lives," Johnny added. "We pray about everything."

Jeffrey urged young farmers to first "get your salvation. It's the most important thing in life for personal peace and success. Spiritually, of course I always look to Jesus Christ for questions or any kind of uncertainty I might have – for reassurance."

"I can testify to the faith of this family. It plays a major role in how they live," noted Kevin Simpson, AgHeritage Farm Credit Services VP of Lending and Branch Manager in Brinkley. "They are as solid as people come."

It's a big part of why they are successful and extraordinary in every way.

CUSTOMER SPOTLIGHT

The Wilson Family: Working Together for Home and Community

When brothers Frank, Jewel and Grady Wilson of Rison purchased a small sawmill for their own use in 1972, they never envisioned that a Saturdays-only operation would evolve into the large multigenerational family business which today plays a key role in Cleveland County's all-important timber industry.

In addition to Wilson Brothers Lumber Company, the family also operates Tri-W Logging, Arkansas Forestry Management Services, A&W Logging and River Ridge Equipment. Total employment for the family's five businesses is about 115.

Frank Wilson earned a degree in forestry at the University of Arkansas at Monticello (UAM), and upon graduating started a job with a pulpwood dealer. He was working for Weyerhaeuser in procurement when he and his older brothers Jewel and Grady, both then working for the railroad, paid $1,500 for their first sawmill.

"It took us another $1,500 to get the mill running, with the parts we had to get and everything," Frank said. "We had $3,000 in it, so we'd just cut a little lumber to sell so we could get our money back."

The three continued their regular jobs, running the mill on Saturdays only from 1972 to 1984. "We put all of the money we made on the business back into it, and started buying some land along the way," Frank said. By 1984 they decided they weren't running it enough, so when Grady's son, Jeff, graduated from UAM with a degree in forestry, they told him they would start the sawmill and do a little forest management and a little logging. "We ended up sawmilling all of the time," Frank said. Jeff eventually became manager of the sawmill.

Grady's son, James, also started at the beginning. "The only thing I missed was when they cut the lumber to build the original building for the sawmill," he said. "Then I went to college, graduated and went to work for J.A. Riggs Caterpillar from 1980 to 1990. I came back here and was involved with the logging crews until 2010, when we started River Ridge.

Frank's son, Jeremy, swore he'd never work at the mill and played football at UAM, where he earned a degree in history. But after teaching and coaching for a while, he was ready to return.

Frank's son, Harrell, and Grady's son, Brad, laugh as they recall trying to move and stack lumber "every once in a while."

"I remember our first actual paying job, when we got to work all summer stacking lumber on the green chain at $2 an hour. We thought we were rich," Brad laughed. "1994 was the year Harrell graduated and I quit college. I worked at the sawmill for a while and then started on the equipment end of it. We started River Ridge and I went there seven years ago. James and I run it now."

Left to right: Jeremy Wilson, Harrell Wilson, Frank Wilson, Jeff Wilson, Grady Wilson, Brad Wilson, James Wilson and Alex Tilley.

Brothers Frank, Jewel and Grady Wilson.

Clay Cannon, Harrell Wilson and Alex Tilley visit during a tour of the sawmill.

Harrell decided in high school that he wanted to be a part of the family business. He, too, received a degree in forestry from UAM and now works primarily in timber management and procurement.

Alex Tilley, who is married to Frank's daughter, Melanie, went to work at the mill in 1998, and assists Jeff in management.

Frank said growth of the business really began with borrowing money from AgHeritage. "For a long time, we wouldn't borrow money for anything," he said. "If we couldn't pay cash for it, we didn't do it. After we found out AgHeritage didn't have better sense than to loan us money, we really grew. We grew in three years what it would've taken us 10 years"

Clay Cannon, Vice President of Lending and Branch Manager at AgHeritage's Pine Bluff Branch, was quick to add that being a banker is all about the people you deal with. "And I will tell you that, out of my customers, I don't have any that are more exceptional individuals. I have the utmost respect for all of the Wilsons and their character. It makes it easy to do business with them because I trust them."

Jeff said he finds deep meaning in serving God, because "when you serve God, all of the other stuff comes natural. If you serve God, you're going to serve your fellow man. That's another thing about our family – we never work on Sunday and always quit early on Wednesdays to go to church."

Frank feels strongly it is vital to give back to the community. While the Wilsons support their community in many ways, one of the most noted is the company's annual Christmas barbecue.

"It started when we took three days off for Christmas at the mill," Frank said. "We decided we'd give the boys a sandwich at noon and take off three and a half days. That went on for a few years, and then I decided to buy some barbecue for the lunch. A cousin of ours volunteered to cook if we would buy the meat, so I bought briskets, pork and ribs. Each year we'd buy a little more meat and invite more friends. Buy more meat, invite more friends."

Now the event hosts about 1,000 people, including customers, friends and state dignitaries – including the governor a few times. Frank loves it that people in grease-stained overalls are seated right beside bankers in suits and ties. "We love this," he said. "The event shows that no one is better than anyone else."

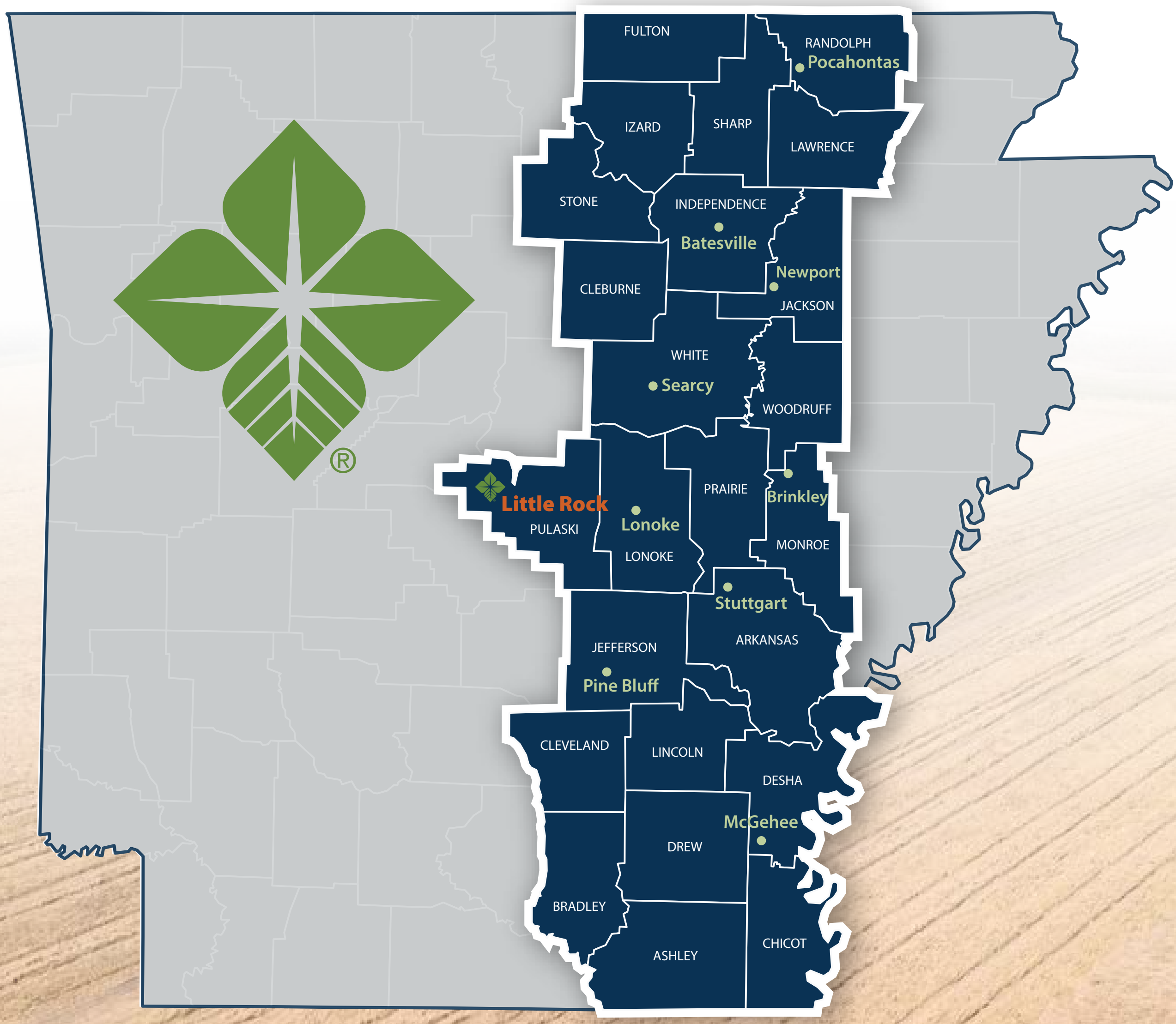
Harrell said his dad told them early on: "I have proof of one thing. You don't have to be smart. You don't have to be right. But everyone has to work together."

That wisdom, as well as kindness and a good work ethic, have made the Wilson family a cherished part of Rison and great citizens of Arkansas.

Harrell and Frank Wilson in the sawmill.

AgHeritage Farm Credit Services

TERRITORY & OFFICE LOCATIONS



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Batesville, AR 72501
(870) 698-9044
(800) 572-8165

LITTLE ROCK CENTRAL OFFICE
119 East Third St, Suite 200
Little Rock, AR 72201
(501) 210-4000
(800) 299-2290

MCGEHEE BRANCH
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McGehee, AR 71654
(870) 222-5205
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