



2019 ANNUAL REPORT TO SHAREHOLDERS

**Idaho AgCredit, ACA and its wholly owned subsidiaries,
Idaho AgCredit, FLCA and Idaho AgCredit, PCA**

188 W Judicial, PO Box 985,
Blackfoot, ID 83221
(208)785-1510

Celebrating 86 years:

Idaho AgCredit, ACA, chartered January 1, 2015

(formerly known as Idaho Agricultural Credit Association)

Idaho AgCredit, FLCA and Idaho AgCredit, PCA chartered July 1, 2002 as wholly
owned subsidiaries of Idaho Agricultural Credit Association

Idaho Agricultural Credit Association chartered January 1, 2000

Eastern Idaho Agricultural Credit Association chartered August 6, 1991

Eastern Idaho Production Credit Association chartered January 6, 1934

Idaho AgCredit

2019 ANNUAL REPORT TO SHAREHOLDERS

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BOARD OF DIRECTORS

Ken Black, Chairman	Burley
Twain S. Hayden, Vice Chairman	Arbon
Scott R. Giltner	Jerome
Wendy Pratt	Blackfoot
Bruce Ricks	Sugar City
Dennis W. Snarr	Idaho Falls
Mike Virtue	Blackfoot

OFFICERS

Marc Fannesbeck	President and CEO
Jim Chase	Secretary and CFO
Adam C. Jensen	Vice President and CCO
Kirk Powell	Assistant Vice President
Katie Wallace	Assistant Vice President
Dana Wood	Assistant Vice President
Ryan Funk	Chief Information Officer

HEADQUARTERS STAFF

Jan Gamble	Senior Operations Assistant
Echo Wren	Operations Assistant
Travis Crook	IT Technician

BRANCH STAFF

<u>Blackfoot Branch Office</u>	(208)785-1510
Katie Wallace	Branch Manager
Avery Robertson	Loan Officer
Jenny Callison	Credit Support Specialist
Tenaia Giannini	Operations Assistant

<u>Rexburg Branch Office</u>	(208)356-5479
Kirk Powell	Branch Manager
Nick Bazil	Assistant Branch Manager
Doug Eck	Evaluation Manager and Senior Loan Officer
Jared Ashcraft	Loan Officer
Maguel Sommer	Credit Analyst
Carrie Mackert	Senior Operations Assistant
Tina Morton	Senior Loan Processing Specialist

<u>American Falls Branch Office</u>	(208)226-5251
Dana Wood	Branch Manager
Dennis Parry	Loan Officer
Travis Larson	Credit Analyst
Meagan Reed	Senior Operations Assistant
Kiara Anderson	Operations Assistant

<u>Twin Falls Loan Office</u>	(208)734-0635
Sean Zaugg	Senior Loan Officer
Tianna Fife	Loan Officer
Dave Scott	Loan Officer
Kaylie Collins	Credit Support Specialist



REPORT OF MANAGEMENT

The consolidated financial statements of Idaho AgCredit, ACA and its wholly owned subsidiaries Idaho AgCredit, FLCA and Idaho AgCredit, PCA (collectively Association) are prepared by management, which is 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 generally accepted accounting principles appropriate under the circumstances and under the oversight of the Audit Committee (composed of all board members) and in the opinion of management fairly present the financial condition and results of operations of the Association. Other financial information included in the 2019 annual report is consistent with the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, the Association, its contract auditors, CoBank and an independent accounting firm perform reviews of the accounting records, review accounting systems and internal controls, and recommend improvements as appropriate.

The activities of the Association are also reviewed by the Farm Credit Administration (FCA) and certain actions of the Association are subject to approval by CoBank. Certain actions of CoBank are also subject to FCA approval.

The consolidated financial statements of the Association were audited by Wipfli LLP, certified public accountants (CPAs), who also conducted a review of the accounting records and such other auditing procedures as they considered necessary to comply with auditing standards generally accepted in the United States of America. A copy of their report is presented later in this annual report.

The Board of Directors and Audit Committee have overall responsibility for the Association's systems of internal control and financial reporting. In connection with this obligation, each consults regularly with management and periodically reviews the scope and results of work performed by the CPAs and other auditors. The CPAs and other auditors also have direct access to the Board of Directors and Audit Committee.

The undersigned certify that this annual report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge and belief.

/s/ Ken Black

Ken Black
Board Chairman

/s/ Marc Fannesbeck

Marc Fannesbeck
President and CEO

/s/ Jim Chase

Jim Chase
Secretary and CFO

February 19, 2020



AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes the entire Board of Directors of Idaho AgCredit, ACA (Association). In 2019, nine Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of Wipfli LLP (CPAs) as the Association's independent auditors for 2019.

The fees for professional services from the CPAs during 2019 were \$31,500 for audit services and \$8,548 for tax and non-audit services. All audit and non-audit services with the CPAs were contracted by and approved by the Audit Committee. Non-audit services included calculation of current and deferred income taxes, preparation of income taxes and consulting on future accounting requirements. The Committee reviewed the non-audit services provided by the CPAs and concluded these services were not incompatible with maintaining the independent auditor's independence.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The CPAs are responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and the audited consolidated financial statements for the year ended December 31, 2019 (the "Audited Financial Statements") with management and the CPAs. The Committee also reviews with the CPAs the matters required to be discussed by Statements on Auditing Standards and both the CPAs and the Association's internal auditors (including staff and contract auditors) provide reports directly to the Committee on significant matters.

The Committee received the written disclosures and the letter from the CPAs in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees) and discussed with the CPAs their independence from the Association. The Committee has discussed with management and the CPAs such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2019 and for filing with the FCA.

/s/ Mike Virtue

Mike Virtue
Chairman of the Audit Committee

Ken Black	Scott R. Giltner
Twain S. Hayden	Wendy Pratt
Bruce Ricks	Dennis W. Snarr

Audit Committee Members

February 19, 2020

Idaho AgCredit
FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(Dollars in thousands)

	December 31				
Consolidated Statement of Condition Data	2019	2018	2017	2016	2015
Loans	\$ 286,470	\$ 291,670	\$ 262,801	\$ 262,637	\$ 263,045
Less allowance for loan losses	1,573	1,193	1,179	1,139	1,045
Net loans	284,897	290,477	261,622	261,498	262,000
Cash and investment securities	1,453	1,957	0	2,339	1,647
Accrued interest receivable	4,901	4,859	4,575	4,455	3,516
Investment in CoBank, ACB	10,963	10,953	10,943	10,933	10,923
Other property owned	0	0	0	0	0
Other assets	3,058	2,765	2,672	2,642	2,510
Total assets	\$ 305,272	\$ 311,011	\$ 279,812	\$ 281,867	\$ 280,596
Obligations with maturities of one year or less	\$ 244,009	\$ 251,740	\$ 223,464	\$ 227,722	\$ 228,293
Obligations with maturities longer than one year	252	237	225	209	379
Total liabilities	\$ 244,261	\$ 251,977	\$ 223,689	\$ 227,931	\$ 228,672
Capital stock and participation certificates	434	428	425	403	404
Allocated retained earnings	20,882	18,435	16,639	15,016	13,384
Unallocated retained earnings	39,695	40,171	39,059	38,517	38,136
Accumulated other comprehensive income/(loss)	0	0	0	0	0
Total shareholders' equity	\$ 61,011	\$ 59,034	\$ 56,123	\$ 53,936	\$ 51,924
Total liabilities and shareholders' equity	\$ 305,272	\$ 311,011	\$ 279,812	\$ 281,867	\$ 280,596

	For the Year Ended December 31				
Consolidated Statement of Income Data	2019	2018	2017	2016	2015
Net interest income	\$ 8,188	\$ 7,651	\$ 7,120	\$ 6,964	\$ 6,644
Patronage distribution from Farm Credit Institutions	1,044	1,216	1,020	1,003	970
(Provision for) or Reversal of loan losses	(390)	(14)	(52)	(143)	(114)
Noninterest expense, net	(3,892)	(3,447)	(3,532)	(3,329)	(3,234)
(Provision for) or Benefit from income taxes	(95)	(143)	(256)	(401)	(223)
Gains (or Losses) from extraordinary items	0	0	0	0	0
Net income/(loss)	\$ 4,855	\$ 5,263	\$ 4,300	\$ 4,094	\$ 4,043
Comprehensive Income	\$ 4,855	\$ 5,263	\$ 4,300	\$ 4,094	\$ 4,043

Consolidated Key Financial Ratios	2019	2018	2017	2016	2015
For The Year					
Return on average assets	1.61%	1.88%	1.61%	1.55%	1.58%
Return on average shareholders' equity	7.89%	8.96%	7.66%	7.57%	7.81%
Net interest income as % of average earning assets	2.93%	2.93%	2.87%	2.81%	2.78%
Net charge-offs/(recoveries) as % of avg net loans	0.00%	0.00%	0.00%	0.02%	0.00%
At Year End					
Shareholders' equity as a percentage of total assets	19.99%	18.98%	20.06%	19.14%	18.50%
Debt as a ratio to shareholders' equity	4.00:1	4.27:1	3.99:1	4.23:1	4.40:1
Allowance for loan losses as a percentage of loans	0.55%	0.41%	0.45%	0.43%	0.40%
Common Equity Tier 1 (CET1) Capital	16.93%	16.21%	17.21%		
Tier 1 Capital	16.93%	16.21%	17.21%		
Total Regulatory Capital	17.49%	16.63%	17.68%		
Tier 1 Leverage	16.84%	15.93%	16.76%		
Unallocated retained or equivalents Leverage (UREE)	16.69%	15.79%	16.60%		
Permanent capital ratio	17.72%	17.14%	18.43%		

Net Income Distribution	2019	2018	2017	2016	2015
Cash patronage distributions paid	\$ 2,355	\$ 2,134	\$ 2,081	\$ 1,996	\$ 1,859
Cash patronage declared	\$ 2,884	\$ 2,355	\$ 2,134	\$ 2,081	\$ 1,996
Stock dividends declared	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Idaho AgCredit

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands except as noted)

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Idaho AgCredit, ACA for the year ended December 31, 2019. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted or are reasonably likely to impact our financial condition and results of operation. The discussion and analysis should be read in conjunction with the accompanying consolidated financial statements, footnotes and other sections of this report. The accompanying consolidated financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Litigation
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

The Association's quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on the Association's website, www.IdahoAgCredit.com, or upon request. We are located at 188 West Judicial, PO Box 985, Blackfoot, ID 83221 or may be contacted by calling (208)785-1510.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

We are one of 68 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of 25 counties in south and east Idaho and two counties in Wyoming. The counties in our territory are listed in Note 1, Organization and Operations, of the Notes to Consolidated Financial Statements. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and we make production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance and crop hail insurance. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. We, along with the borrower's investment in our Association are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge on CoBank's web site, www.cobank.com, or may be obtained at no charge by contacting us at Idaho AgCredit, 188 W Judicial, PO Box 985, Blackfoot, ID 83221 or by calling (208)785-1510. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. We purchase payroll and other human resources services from Farm Credit Foundations, which is a human resource service provider for a number of Farm Credit institutions.

ECONOMIC OVERVIEW

Production agriculture is a cyclical business that is heavily influenced by commodity prices. Overall conditions were less than optimal in 2017 and 2018 with prices for most commodities near breakeven. Prices for 2019 were marginally improved. The impact to the Association from the negative portion of these cycles that agriculture has and always will experience is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers.

Economic conditions in most sectors of our region during 2019 were marginal as prices for major commodities financed

Idaho AgCredit

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands except as noted)

including wheat, barley, alfalfa and beef cattle were generally at breakeven prices or a little above. Open potato prices for the 2018 crop were generally breakeven or slightly below. The marketing outlook for the 2019 potato crop is above breakeven for open market potatoes, with some producers being fairly profitable depending upon debt and expense management. Contracted potatoes are generally a little above breakeven. Sugar beet prices are at breakeven or slightly above depending on the operation's debt load. Milk prices have improved during the year with most producers above breakeven prices depending on their feed sources and milk components. The costs for energy, fertilizers and related items moderated in recent years and will likely be steady in 2020.

Irrigation supplies during 2019 were generally adequate. The 2019 year end reservoir levels were above average, but year end snowpack levels were below average in most areas. Ongoing water rights issues and suits between pumpers and surface water users continue to highlight the importance of water management. The State of Idaho Department of Water Resources annually assesses whether some pumping may be cut off or reduced. Current projections indicate most regions should have adequate water for 2020 crops, but these projections largely depend on precipitation received through the rest of the winter and spring. The Idaho Legislature is also considering options for building more long-term stability into how water is made available.

Prime rate decreased three times in 2019 to 4.75% at year end, compared to 5.50% at year end 2018 and 4.50% at year end 2017. Interest rate forecasts vary, but most indicate rate increases, if any, will probably be no more than .25% in the next year. The interest rate changes in the last two years represent a return to more normal interest rates. Any rate increases in the next few years will tighten customer margins at a time when prices are near breakeven, which could present challenges to lenders and producers.

Real estate prices and land rents have remained strong in the Association's territory. Any downward pressure on land rents due to low commodity prices could move land prices lower. The prices of smaller parcels of land adjoining larger farming operations may continue to see a premium above general land sales. No specific weaknesses in general land prices have been seen yet, although some other parts of the country report declines in land prices. The Association's mortgage portfolio increased in 2019. Mortgage interest rates have dropped in the last year and several operations refinanced at lower rates.

The Association's net income was good and primarily reflects the strong economic success of the Association's customers and the growth in average Association loan volume. Cash patronage from CoBank decreased in 2019 and is projected to decrease again in 2020, before reaching a new stable level.

The federal legislation commonly known as the Tax Cuts and Jobs Act of 2017 (TCJA) enacted in late December 2017 changed the federal tax rate from 35% to 21% beginning in 2018 among other things. The TCJA's did not warrant any material changes to the Association's 2017 provision for income taxes, and provided a small amount of tax relief in 2018 and 2019. The full impact of the TCJA is difficult to project and may not be known for several years. Changes that could affect the Association's customers include, but are not limited to, deductions surrounding interest expense and equipment purchases, tax incentives related to renewable energy initiatives, deductions impacting agricultural producers who sell their products to cooperatives and the overall changes in the competitive environment impacting financial institutions.

The Agricultural Improvement Act of 2018 (Farm Bill) was signed into law on December 20, 2018. This new Farm Bill will govern an array of federal farm and food programs, including commodity price support payments, farm credit, conservation programs, research, rural development and foreign and domestic food programs for five years through 2023. The new Farm Bill continues to provide support for crop insurance programs and commodity support programs, strengthen livestock disaster programs, and provides dairy producers with an updated voluntary margin protection program that will provide more flexibility to dairy operations. The Farm Bill also authorizes the production and marketing of industrial hemp in accord with state or federal regulations. The Farm Bill also clarifies the Insurance Corporation's authority, role and procedures for acting as a conservator or receiver of a troubled System institution. The Farm Bill provides a range of statutory options to the Insurance Corporation including, but not limited to, marshalling and liquidating assets, satisfying claims of creditors and using interim devices such as bridge banks.

Many provisions of the Farm Bill will require the United States Department of Agriculture to develop rules and procedures to fully implement these authorities. The timing for the issuance of those rules is uncertain.

LOAN PORTFOLIO

Total loans outstanding were \$286,470 at December 31, 2019, which was a decrease of \$5,200 or 1.8% from \$291,670 at December 31, 2018, and an increase of \$23,669 or 9.0% in the two year period from \$262,801 at December 31, 2017. The slight decrease in loans from 2018 to 2019 reflects slight growth in mortgage loans and moderate reductions in commercial loans as a result of weak economic conditions. The increase from 2017 to 2018 reflects a combination of new production loans and mortgage loans due to marketing efforts and participation purchased loans purchased for diversification and portfolio management. The types of loans outstanding at December 31 are reflected in the following table.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands except as noted)

Type of Loan	2019		2018		2017	
	Oustanding	Percent	Oustanding	Percent	Oustanding	Percent
Real estate mortgage loans	\$ 172,849	60.3%	\$ 161,846	55.5%	\$ 141,405	53.8%
Production and intermediate-term loans	105,286	36.7%	115,297	39.5%	111,847	42.6%
Agribusiness:						
Processing and marketing loans	5,300	1.9%	8,285	2.9%	5,729	2.2%
Farm related business loans	3,035	1.1%	6,242	2.1%	3,820	1.4%
Rural residential real estate loans	0	0.0%	0	0.0%	0	0.0%
Total	\$ 286,470	100.00%	\$ 291,670	100.00%	\$ 262,801	100.00%

The Association may have loans in the categories of real estate mortgage loans, production and intermediate-term loans, Agribusiness loans (including loans to cooperatives, processing and marketing loans and farm related business loans), rural residential real estate loans, rural infrastructure loans (including loans for communications, energy, water and waste water), mission related loans, and other loans. Each chart or table within this annual report which breaks out volume by any of these categories will identify all reportable categories for the years shown.

Real estate mortgage loans outstanding increased to \$172,849 compared to \$161,846 at year end 2018, primarily due to marketing efforts and participations purchased for diversification and portfolio management. These loans are used to purchase, refinance or improve real estate and have maturities ranging from 5 to 40 years. Real estate mortgages are also made to non-farm rural homeowners. By federal regulation, real estate mortgage loans must be secured by first liens and may be made only in amounts up to 85% of the original appraised value of the property or up to 97% of the appraised value if guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

Production and intermediate-term loans decreased to \$105,286 compared to \$115,297 at year end 2018 due to weak economic conditions. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch and are written for a specific term of 1 to 15 years with most loans not exceeding 10 years.

At December 31, 2019, agribusiness loan volume comprised about 3.0% of total loan volume. Processing and marketing loans decreased to \$5,300 compared to \$8,285 at year end 2018 primarily due to changes in participations purchased from other Farm Credit institutions. Farm related business loan volume decreased to \$3,035 compared to \$6,242 at year end 2018 primarily due to normal loan activity. There can be considerable seasonal variation in loan volume due to the timing and amounts of disbursements and repayments on these agribusiness loans.

Loan Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed, and loan size as illustrated in the following four tables.

We purchase loan participations from other System entities to generate additional earnings and in some cases diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established. Our volume of participations purchased and sold as of December 31 follows.

	2019	2018	2017
Participations purchased	\$ 45,065	\$ 42,342	\$ 26,424
Participations sold	\$ 19,783	\$ 23,473	\$ 17,008

We have no purchased loans, loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold.

Idaho AgCredit

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands except as noted)

The geographic distribution of loans by county are shown below as of December 31 (loans we purchase from outside our territory are shown in "Other").

County (in Idaho unless denoted)	2019	2018	2017
Bannock	0.8%	1.6%	1.8%
Bear Lake	0.1%	0.0%	0.0%
Bingham	17.0%	20.8%	21.2%
Blaine	0.2%	0.3%	0.3%
Bonneville	0.8%	0.9%	1.2%
Butte	1.7%	2.0%	2.1%
Camas	0.1%	0.2%	0.1%
Caribou	3.4%	3.3%	3.5%
Cassia	3.4%	3.5%	3.4%
Clark	0.0%	0.0%	0.0%
Custer	2.2%	1.8%	2.1%
Franklin	0.0%	0.0%	0.0%
Fremont	4.1%	4.2%	4.9%
Gooding	2.4%	2.0%	1.4%
Jefferson	13.3%	11.9%	13.5%
Jerome	2.4%	2.5%	2.3%
Lemhi	1.9%	1.7%	1.8%
Lincoln	0.2%	0.3%	0.4%
Madison	8.4%	9.2%	10.2%
Minidoka	2.7%	1.7%	1.8%
Oneida	0.6%	0.6%	0.5%
Owyhee	0.0%	0.0%	0.0%
Power	11.0%	11.1%	12.5%
Teton	0.5%	0.6%	0.8%
Twin Falls	8.3%	6.4%	5.6%
Lincoln and Teton counties, Wyoming	0.0%	0.1%	0.1%
Other (California)	8.8%	8.3%	4.8%
Other (Other states)	5.7%	5.0%	3.7%
Total	100.0%	100.0%	100.0%

Bingham County has a large concentration of potatoes and sugar beets, which require extensive capital. Fremont and Madison Counties also have a large concentration of potato acreage. Power County has large concentrations of potatoes, grain and sugar beet acreages. Jefferson County has large concentrations of potatoes, grain, hay and cattle. Twin Falls County has large concentrations of milk and dairy cattle.

The following table shows the Association's percentage of average loan volume attributable to the gross sales of the primary agricultural commodities produced by our borrowers as of December 31 (all results are shown net of participations sold). The categories shown are based on the Standard Industrial Classification (SIC) system published by the federal government.

SIC Category	2019	2018	2017
Potatoes	15.0%	17.5%	20.2%
Grain (wheat, malt and feed barley)	15.4%	15.8%	16.5%
Cash Rent	10.4%	11.9%	10.6%
Beef cattle and calves	11.3%	11.3%	11.0%
Hay	9.9%	9.4%	9.7%
Milk and dairy cattle	8.8%	8.5%	7.8%
Sugar beets	4.7%	4.7%	5.4%
Outside income (mostly wages)	2.9%	1.5%	1.7%
Other	21.6%	19.4%	17.1%
Total	100.0%	100.0%	100.0%

Our loan portfolio contains concentrations of approximately 5% or more of potatoes, grain, cash rent, milk and dairy cattle, beef cattle and calves, hay, and sugar beets. Cash rent operators are generally reliant on similar ratios of commodities as our lending portfolio, although most receive a portion of rent upfront, which reduces sensitivity to market price risk. Repayment ability of our borrowers is closely related to the production and the profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by the industry economics. Our future performance would be negatively impacted by adverse agricultural conditions.

Idaho AgCredit

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands except as noted)

The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers.

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most earnings from nonagricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. The percentage of loan volume derived from nonagricultural sources for the years 2017 through 2019 is insignificant and is included as outside income (mostly wages) in the table above.

The principal balance outstanding at December 31, 2019 for loans \$250 thousand or less accounted for 21.1% of loan volume and 84.0% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The table below details loans by dollar size of principal outstanding as of December 31.

	2019		2018		2017	
	Amount Outstanding	Number of Loans	Amount Outstanding	Number of Loans	Amount Outstanding	Number of Loans
\$1 - \$250	\$ 60,325	1,496	\$ 55,301	1,401	\$ 54,000	1,366
\$251 - \$500	50,419	142	46,676	131	46,018	133
\$501 - \$1,000	54,534	79	67,059	98	64,065	94
\$1,001 - \$5,000	116,167	64	117,416	66	93,319	51
\$5,001 - \$25,000	5,025	1	5,218	1	5,399	1
\$25,001 - \$100,000	0	0	0	0	0	0
Total	\$ 286,470	1,782	\$ 291,670	1,697	\$ 262,801	1,645

Approximately 80% of our loans outstanding is attributable to 102 borrowers. Due to the size of their loans, the loss of any of these borrowers or the failure of any of these borrowers to perform would adversely affect the portfolio and our future operating results.

The credit risk of some long-term real estate loans has been reduced by entering into agreements that provide long-term standby commitments by Federal Agricultural Mortgage Corporation (Farmer Mac) to purchase the loans in the event of default. The amount of loans subject to these Farmer Mac credit enhancements was \$9,276 as of December 31, 2019, \$9,633 as of December 31, 2018 and \$9,968 as of December 31, 2017. Included in other operating expenses were fees paid for these Farmer Mac commitments totaling \$38 for 2019, \$39 for 2018 and \$40 for 2017. Under the Farmer Mac long-term standby commitment to purchase agreements, we continue to hold the loans in our portfolio and we pay commitment fees to Farmer Mac for Farmer Mac's commitment to purchase each such loan at par in the event the loan becomes significantly delinquent (typically four months past due). If the borrower cures the default, we must repurchase the loan and the commitment remains in place. Farmer Mac long-term standby commitments to purchase agreements are further described in Note 3, Loans and Allowance for Loan Losses, of the Notes to Consolidated Financial Statements. Other than the contractual obligations arising from these business transactions with Farmer Mac, Farmer Mac is not liable for any debt or obligation of ours and we are not liable for any debt or obligation of Farmer Mac. For more information on Farmer Mac, refer to their website at www.farmermac.com.

Credit guarantees with government agencies of \$22.4 million, \$27.0 million and \$24.0 million were outstanding at year end 2019, 2018 and 2017 respectively.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our consolidated 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 contract. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the commitment expiration distribution of unfunded and contractual credit commitments on loans at December 31, 2019.

	Less than			Over 5	
	1 Year	1-3 years	4-5 years	years	Total
Real estate mortgage loans	\$ 803	\$ 1,198	\$ 357	\$ 1,349	\$ 3,707
Production & intermediate-term loans	27,921	28,990	1,324	108	58,343
Agribusiness	1,876	1,417	250	0	3,543
Commitments to extend credit	30,600	31,605	1,931	1,457	65,593
Standby letters of credit	0	0	0	0	0
Commercial letters of credit	0	0	0	0	0
Total commitments	\$ 30,600	\$ 31,605	\$ 1,931	\$ 1,457	\$ 65,593

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Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statement of Financial Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments and not all commitments will result in loan volume. We accrue reserves for losses on unfunded commitments separately from the underlying loans and the amounts of such reserves are shown on the Consolidated Statements of Financial Condition as a separate liability line item.

High Risk Assets

Nonperforming loan volume is composed of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Comparative information regarding high risk assets in the portfolio, including accrued interest, follows.

	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage loans	\$ 576	\$ 497	\$ 37
Production & intermediate-term loans	\$ 1,604	\$ 2,107	\$ 536
Agribusiness	0	0	667
Total nonaccrual loans	2,180	2,604	1,240
Accruing restructured loans	0	0	0
Accruing loans 90 days past due	0	0	0
Total impaired loans	2,180	2,604	1,240
Other property owned	0	0	0
Total high risk assets	\$ 2,180	\$ 2,604	\$ 1,240
Nonaccrual loans to total loans	0.75%	0.88%	0.47%
High risk assets to total loans	0.75%	0.88%	0.47%
High risk assets to total shareholders' equity	3.57%	4.41%	2.21%

Total high risk assets decreased \$424 to \$2,180 as of December 31, 2019 compared with year end 2018. The decrease was a result of collection of guaranteed amounts, partially offset by new nonaccrual loans. Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. At December 31, 2019, six customers had nonaccrual loans. The following table provides additional information on nonaccrual loans as of December 31.

	2019	2018	2017
Nonaccrual loans current as to principal and interest	\$ 668	\$ 2,604	\$ 704
Cash basis nonaccrual loans	0	0	0
Restructured loans in nonaccrual status	0	0	0

For the years presented in the preceding two tables, there were no cash basis nonaccrual loans, restructured loans in nonaccrual status, or other property owned. High risk asset volume is anticipated to increase in the future because the volume of such loans is relatively low in comparison to total loans and cyclical economic conditions in agriculture have been worsening and it may take a few years to return to more profitable levels.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

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The following table presents statistics based on the UCS related to the credit quality of the loan portfolio, including accrued interest at December 31.

	2019	2018	2017
Acceptable	97.1%	95.1%	94.5%
OAEM	1.6%	1.8%	3.1%
Substandard	1.2%	3.1%	2.4%
Doubtful	0.1%	0.0%	0.0%
Loss	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

During 2019, overall credit quality improved slightly compared to the prior year. Loans classified as "Acceptable" or "OAEM" were 98.7% at December 31, 2019 and 96.9% at December 31, 2018, "Substandard" loans decreased from 3.1% to 1.2% and "Doubtful" loans increased from 0.0% to 0.1%. The financial position of most agricultural producers strengthened during the past decade and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans (both including interest) increased slightly, with .70% at December 2019 compared with .02% at December 2018 and .03% at December 31, 2017.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31.

	2019	2018	2017
Allowance balance at beginning of the year	\$ 1,193	\$ 1,179	\$ 1,139
(Charge-offs:)			
Production and intermediate-term loans	0	0	0
Total charge-offs	\$ 0	\$ 0	\$ 0
Recoveries:			
Production and intermediate-term loans	0	0	0
Total recoveries	\$ 0	\$ 0	\$ 0
Net (Charge-offs) and Recoveries	\$ 0	\$ 0	\$ 0
Provision for loan losses/(Loan loss reversal)	380	14	40
Balance at December 31	\$ 1,573	\$ 1,193	\$ 1,179
Net charge-offs/(Recoveries) to average loans	0.00%	0.00%	0.00%

Allowance for loan loss by loan type:

Real estate mortgage	\$ 554	\$ 546	\$ 518
Production & intermediate-term loans	998	623	654
Agribusiness	21	24	7
Rural residential real estate	0	0	0
Total allowance for loan loss	\$ 1,573	\$ 1,193	\$ 1,179

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The allowance for loan losses increased \$380 from December 31, 2018 to \$1,573 at December 31, 2019. The increase in allowance for loan losses was primarily due to calculated net increases in allowances related to overall financial conditions and loan volume changes. During 2018, the allowance for loan loss increased \$14 net of charge-offs primarily due to overall financial conditions and loan volume changes. Overall, charge-off activity remains low relative to the size of the loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2019	2018	2017
Allowance as a percentage of:			
Loans	0.55%	0.41%	0.45%
Total impaired loans	72.16%	45.82%	95.08%
Nonaccrual loans	72.16%	45.82%	95.08%

We also maintain a reserve for credit losses for unfunded commitments. The reserve for credit losses is subject to substantially the same risk factors as the allowance for loan losses. The following is a summary of the changes in the reserve for credit losses as of December 31.

	2019	2018	2017
Reserve balance at beginning of the year	\$ 42	\$ 42	\$ 30
Provision for loan losses/(Loan loss reversal)	10	0	12
Balance at December 31	\$ 52	\$ 42	\$ 42

Reserve for credit losses by loan type:

Real estate mortgage	\$ 4	\$ 1	\$ 0
Production & intermediate-term loans	46	40	41
Agribusiness	2	1	1
Rural residential real estate	0	0	0
Total allowance for loan loss	\$ 52	\$ 42	\$ 42

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit to young, beginning and small (YBS) farmers and ranchers. Our YBS Mission Statement is "To reliably, consistently and constructively serve the credit and related needs of young, beginning and small farmers and ranchers, including minorities that fit the YBS criteria, through specifically designed credit programs and services. When necessary, private or governmental guarantees will be used to expand the number of young, beginning and small farmers and ranchers that the Association serves. The Association will provide sound constructive credit to enable YBS farmers to begin, grow, or remain in agricultural production and facilitate the transfer of agricultural operations from one generation to the next." The FCA regulatory definitions for YBS farmers and ranchers are shown below.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS customers (farm operators) as a percentage of the number of farm operators in our loan portfolio while the USDA column represents the percentage of farmers and ranchers (farm operators) classified as YBS within our territory per the 2017 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	2019	2018	2017
Young	10.81%	21.22%	22.53%	21.35%
Beginning	25.79%	25.99%	26.69%	25.17%
Small	80.57%	34.70%	34.84%	33.51%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are generally based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information will be utilized as it is the best comparative information available.

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We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our 2019 goals were as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other system institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory; and,
- Implement effective outreach programs to attract YBS farmers and ranchers.

Status report on above goals:

- The Association offered hail insurance and life insurance products to meet the needs of YBS farmers and ranchers.
- The Association maintained an excellent relationship with the Farm Service Agency (FSA). At year end 2019 7.8% of the loan portfolio was FSA guaranteed. This program has proven to be very effective in allowing the Association to serve YBS farmers and ranchers.
- Association representatives met with FFA classes, 4H participants and other Young Farmer groups.
- The Association supplied FFA manuals to local high schools at a discounted cost to assist in the students' Agricultural Education.
- The Association supported youth through livestock purchases and provided additional sponsorships at county and state fairs.
- The Association had agricultural scholarship programs totaling \$12,000 (whole dollars).
- The Association had special loan underwriting standards for lending to YBS borrowers.
- The Association supported additional community youth activities to develop relationships with future producers.

Quarterly reports are provided to the Board of Directors detailing the number, volume and credit quality of YBS customers. The Association developed quantitative targets in the following areas to monitor progress.

- Loan volume and loan number goals for YBS farmers and ranchers in its territory.
- Percentage goals representative of the demographics of YBS and minority farmers and ranchers in its territory.
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in its territory.

The Association met its loan activity goals by both number and volume in all categories. It met its number and volume goals for first time beginning and small farmers and met its goal for first time young operators by number, but not by volume. The Association met its demographic goals for young, beginning, small or minority farmers.

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards, loan guarantee programs, fee waiver programs, or other credit enhancement programs. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training and insurance services for YBS farmers and ranchers including minorities.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the term of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- capital – ability of the operation to survive unanticipated risks;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment; and
- conditions – intended use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds, and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. We have adopted an individual lending limit of 15% of permanent capital for our highest quality borrowers, and have established lending limits for commodity types and special lending programs, including purchased participation loans.

We have established internal lending delegations to control the loan approval process. Delegations to staff are based on our

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risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff. Larger and more complex loans or loans perceived to have higher risk are typically approved by our loan committee with the most experienced and knowledgeable credit staff serving as members. All loans, including those approved under delegated authority, are reviewed by our loan committee.

The majority of our lending is for first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified evaluator. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate. This Model also serves as the basis for economic capital modeling.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B >0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C >3% to 7% anticipated principal loss; >15% to 20% range of economic loss
- D >7% to 15% anticipated principal loss; >20% to 25% range of economic loss
- E >15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

The Association purchases participation loan interests from other Farm Credit institutions to diversify risk, utilize capital, improve earnings and to meet other operational objectives. The Association applies the same underwriting standards, investigation and analysis requirements to participation purchases as it does to its originated loans and has established limits in the individual and collective volume of such loans.

RESULTS OF OPERATIONS

Earnings Summary

In 2019, we recorded net income of \$4,855 compared with \$5,263 in 2018 and \$4,300 in 2017. The decrease in net income of \$408 in 2019 compared to the prior year was primarily due to higher net interest income due to higher interest income in relation to interest expense, offset by lower noninterest income, higher provision for losses, higher noninterest expenses and a lower provision for income taxes. The following table presents the changes in the significant components of net income at year end.

	2019 vs. 2018	2018 vs. 2017
Net income, prior year	\$ 5,263	\$ 4,300
Increase/(Decrease) from changes in:		
Interest income	1,471	1,621
Interest expense	(933)	(1,090)
Net interest income	538	531
Provision for loan losses and commitment reserves	(376)	38
Noninterest income	(141)	220
Noninterest expense, net	(478)	61
Provision for income taxes	49	113
Total (decrease)/increase in net income	(408)	963
Net income, current year	\$ 4,855	\$ 5,263

Return on average assets decreased to 1.61% from 1.88% in 2018 and return on average shareholders' equity decreased to 7.89% from 8.96% in 2018 primarily due to a decrease in net income in relation to average equity.

Net Interest Income

Net interest income for 2019 was \$8,188 compared with \$7,651 in 2018 and \$7,120 in 2017. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to higher average volume and favorable interest expense conditions. The table below

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provides an analysis of the individual components of the change in net interest income during the years shown.

	2019 vs. 2018	2018 vs. 2017
Net interest income, prior year	\$ 7,651	\$ 7,120
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned and paid	254	120
Volume of accruing assets and interest bearing liabilities	338	356
Interest income on nonaccrual loans	(55)	55
Total (decrease)/increase in net interest income	537	531
Net interest income, current year	\$ 8,188	\$ 7,651

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	2019	2018	2017
Net interest margin	2.93%	2.93%	2.87%
Interest rate on:			
Average loan volume	5.41%	5.22%	4.86%
Average debt	2.90%	2.78%	2.40%
Interest rate spread	2.51%	2.44%	2.46%

The 7 basis point increase in interest rate spread resulted from a 19 basis point increase in interest rates on average loan volume and a 12 basis point increase in interest rates on average debt. The 0 basis point change in net interest margin (net interest income as a percentage of average earnings assets) was due to impact of decreasing interest rates which decreased the earnings on the Association's capital, offset by the change in spread.

Provision for Loan Losses and Reserves/(Loan Loss and Reserve Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses and reserves or decrease through a loan loss and reserve reversal in our allowance for loan losses and reserves for losses on loan commitments is warranted based on our assessment of the probable losses in our loan portfolio. We recorded a net provision for loan losses and reserves of \$390 for the year ended December 31, 2019 compared to \$14 in 2018 and \$52 in 2017. The net provision in 2019 was primarily due to changes in loan volume and credit quality, including the addition of a specific allowance on a nonaccrual loan. The net provision in 2018 was primarily due to minor changes in loan volume and credit quality. The net provision in 2017 was primarily due to minor changes in loan volume and credit quality. The portion of the provisions related to reserves for losses on credit commitments was \$10 in 2019, \$0 in 2018 and \$12 in 2017.

Noninterest Income

During 2019, we recorded noninterest income of \$1,257 compared to \$1,399 in 2018 and \$1,179 in 2017. Patronage distributions from CoBank were our primary source of noninterest income. Patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was \$944 in 2019, \$1,141 in 2018 and \$962 in 2017. The 2018 CoBank patronage included a special one-time amount of \$129.

During August 2017, CoBank management announced changes to their capital plans and patronage programs for eligible customer-owners designed to address a number of marketplace challenges. The changes are intended to strengthen CoBank's long-term capacity to serve customers' borrowing needs, enhance CoBank's ability to capitalize future customer growth, and ensure equitability among different customer segments. The new target patronage levels took effect in the 2018 calendar year and were reflected beginning with patronage distributions made in March 2019. Affiliated Associations will transition to their new target patronage levels over a multi-year period ending in 2020. The net reduction to the Association's net income due to CoBank's changes to patronage programs will likely reduce net income by about \$100 in 2020.

Noninterest income also includes patronage from other Farm Credit institutions, loan fees, and financially related services income. Patronage from other Farm Credit institutions was \$100 in 2019, \$75 in 2018 and \$58 in 2017. Loan fee income was \$200 in 2019, \$170 in 2018 and \$147 in 2017. The change in patronage from other Farm Credit institutions is primarily due to an increase in patronage eligible loan volume and variations in patronage rates, and the change in loan fee income is due to more new loans and/or loan rate conversions. Other sources of noninterest income did not change materially in these years.

Noninterest Expense

Noninterest expense for the year ended December 31, 2019 increased \$478, or 13.2% compared to 2018 and increased \$416, or 11.3% in the two year period since year end 2017. Noninterest expense for each of the three years ended December 31 is summarized below.

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	2019	2018	2017	Percent of Change	
				2019/2018	2018/2017
Salaries and employee benefits	\$ 2,905	\$ 2,632	\$ 2,523	10.4%	4.3%
Occupancy & equipment	161	152	150	5.9%	1.3%
Supervisory & examination costs	114	106	104	7.5%	1.9%
Data processing services	10	10	10	0.0%	0.0%
Other, net	794	733	641	8.3%	14.4%
Total operating expense	\$ 3,984	\$ 3,633	\$ 3,428	9.7%	6.0%
Losses(Gains) on other property owned, net	0	0	0	0.0%	0.0%
Farm Credit Insurance Fund Premium	123	(4)	263	3,175.0%	(101.5%)
Total noninterest expense	\$ 4,107	\$ 3,629	\$ 3,691	13.2%	(1.7%)

Salaries and benefits in 2019 were \$273 higher due to additional employees, salary increases and growth incentives. Occupancy and equipment increased \$9 due to higher maintenance and repairs, depreciation and real estate taxes. The Farm Credit Insurance Fund premium increased \$127 to \$123 in 2019 primarily due to a one-time rebate of \$61 and no change in the premium rate.

Provision for income taxes

We recorded \$95 in provision for income taxes during 2019, compared with \$143 in 2018 and \$256 in 2017 for the taxable earnings of Idaho AgCredit, PCA. The decrease was primarily due to a lower estimate of net taxable earnings on the PCA. Tax expense was also impacted by our patronage program. We operate as a Subchapter T cooperative for tax purposes and thus may deduct from taxable income certain amounts that are distributed from net earnings to borrowers. See Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements for additional details.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction and liquidate nonearning assets. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank which matures on May 31, 2023. The annual average principal balance of the note payable to CoBank was \$232,720 in 2019, \$216,300 in 2018 and \$205,018 in 2017.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue System-wide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Financial markets were much more stable in the last few years and we continued to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we may commit a portion of excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP), although no funds were committed to this program at year end 2019, 2018 or 2017. This program potentially enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position. We may also be exposed to interest rate risk on variable rate loans when the timing of loan rate changes does not closely align with the timing of changes to the underlying interest expenses. The ability to change the interest rate on variable rate loans substantially mitigates this risk. We also have a small portfolio of primarily London Interbank Offered Rate (LIBOR) indexed loans which are not match-funded. Most of these loans could become match-funded at the option of the Association.

Funds Management

We offer variable, fixed, adjustable, prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors

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(Dollars in thousands except as noted)

determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

LIBOR was used by CoBank in determining and match funding a portion of our administrative variable rate cost of funds in 2019, 2018 and 2017. The publishing of LIBOR is scheduled to be discontinued as of the end of the year 2021. In the United States, rate indexes based on SOFR (Secured Overnight Financing Rates) are expected to take the place of LIBOR rate indexes. We have established a transition plan with CoBank beginning in January 2020 to replace the LIBOR portion of funding costs with SOFR by the end of 2020. We are also monitoring the few loans we have that are tied to LIBOR and expect to transition those loans before the discontinuation of LIBOR. We do not expect this change to materially impact our variable rates.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at year end totaled \$61,011 in 2019, \$59,034 in 2018 and \$56,123 in 2017. The annual increases in shareholders' equity reflects net income and net stock issuances partially offset by patronage dividends paid. Our capital position is reflected in the following ratio comparisons as of December 31.

	2019	2018	2017
Debt to shareholders' equity	4.00:1	4.27:1	3.99:1
Shareholders' equity as a percent of net loans	21.42%	20.32%	21.45%
Shareholders' equity as a percent of total assets	19.99%	18.98%	20.06%

Debt to shareholders' equity decreased and shareholders' equity as a percentage of loans and of total assets increased from 2018 primarily due to retained net income which was retained at a higher rate in relation to decreases in loan volume. There are no material trends or changes in the mix and cost of debt and capital resources, there are no material favorable or unfavorable trends in capital resources, and there are no trends, commitments, contingencies or events that are reasonably likely to have a material adverse effect upon the adequacy of available funds.

Retained Earnings

Our retained earnings increased at year end from the prior year by \$1,971 to \$60,577 in 2019, \$2,907 to \$58,506 in 2018 and \$2,165 to \$55,699 in 2017. The 2019 increase was a result of net income of \$4,855, partially offset by \$2,884 of patronage distributions declared.

Patronage Program

We have a patronage program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage dividends are based on business done with us during the year. We paid cash patronage of \$2,355 in 2019, \$2,134 in 2018 and \$2,081 in 2017. During 2019, we declared cash patronage distributions of \$2,884 to be paid in February 2020.

Stock

Our total stock and participation certificates increased \$7 at year end to \$434 in 2019 and was \$427 at year end 2018 and \$425 at year end 2017. The change in stock and participation certificates each year is a result of net issuances and retirements. We require a stock or participation certificate investment for each borrower, with the exception of Sales Contracts and Participations Purchased. We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is the lesser of one thousand dollars or 2.0% of the amount of the borrower's combined loan volume.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital targets in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

Idaho AgCredit

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands except as noted)

As shown in the following table, at December 31 of each year end, our capital and leverage ratios exceeded regulatory minimums. If these capital standards are not met, the FCA can impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends.

(ratios at period end)	2019	2018	2017	Regulatory Minimum
Common equity tier 1 capital ratio	16.93%	16.21%	17.21%	7.00%
Tier 1 capital ratio	16.93%	16.21%	17.21%	8.50%
Total regulatory capital ratio	17.49%	16.63%	17.68%	10.50%
Tier 1 leverage ratio	16.84%	15.93%	16.76%	5.00%
URE and Equivalents (UREE) Leverage ratio	16.69%	15.79%	16.60%	1.50%
Permanent capital ratio	17.72%	17.14%	18.43%	7.00%

The minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2019, we exceeded our ratio goals but not our dollar goal. The Board has established a plan of retaining an amount of earnings each year until the dollar goal is reached. Due to our strong capital position, we will continue to be able to retire at-risk stock. Refer to Note 8 Shareholders' Equity for additional information related to our capital and related requirements and restrictions.

REGULATORY MATTERS

As of December 31, 2019, we had no enforcement actions in effect and FCA took no enforcement actions on us during the year.

LITIGATION

There are no legal actions pending against the Association in which claims for money damages are asserted.

GOVERNANCE

Governance disclosures, including Board of Directors, Director Independence, Audit Committee, Compensation Committee and Other Governance are presented in the Governance section of the section titled "Disclosure Information Required by Farm Credit Administration Regulations" following the Notes to Consolidated Financial Statements.

FORWARD-LOOKING INFORMATION

Our discussion contains 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 "anticipates," "believes," "could," "estimates," "may," "should," and "will" or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to determination of the allowance for loan losses follows.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a periodic evaluation of the loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors.

Idaho AgCredit

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands except as noted)

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and projected factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolios could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Note 2, Summary of Significant Accounting Policies, and Note 3, Loans and Allowance for Loan Losses, of the accompanying Notes to Consolidated Financial Statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers and employees. FCA regulations and our Standards of Conduct Policies specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.



INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders of Idaho AgCredit, ACA

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Idaho AgCredit, ACA, a federally chartered institution, (the Association), which comprise the consolidated statements of financial condition as of December 31, 2019, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 of 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Idaho AgCredit, ACA as of December 31, 2019, 2018, and 2017, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Five Year Summary of Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 4–19 and the Disclosure Information on pages 44–49, which is the responsibility of management, is not a required part of the basic financial statements but is supplementary information required by Farm Credit Administration Regulations. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, this information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

Idaho Falls, Idaho
February 19, 2020

Idaho AgCredit
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31		
	2019	2018	2017
ASSETS			
Loans	\$ 286,470,251	\$ 291,670,361	\$ 262,801,192
Less allowance for loan losses	1,572,793	1,193,474	1,179,140
Net loans	284,897,458	290,476,887	261,622,052
Cash	1,453,133	1,957,346	0
Accrued interest receivable	4,901,371	4,858,665	4,575,235
Investment in CoBank, ACB	10,963,123	10,953,341	10,942,993
Premises and equipment, net	1,358,241	1,164,876	1,176,429
Other property owned	0	0	0
Prepaid pension expense	485,271	318,395	295,770
Deferred tax asset, net	101,000	9,000	32,000
Other assets	1,112,853	1,272,881	1,167,618
Total assets	\$ 305,272,450	\$ 311,011,391	\$ 279,812,097
LIABILITIES			
Note payable to CoBank, ACB	\$ 235,808,464	\$ 245,416,059	\$ 216,181,824
Advance conditional payments	4,290,453	3,009,697	3,400,937
Accrued interest payable	615,942	627,053	471,286
Patronage distributions payable	2,884,335	2,355,233	2,134,444
Reserve for losses on loan commitments	52,127	41,938	42,181
Other liabilities	610,284	527,651	1,458,149
Total liabilities	244,261,605	251,977,631	223,688,821
Commitments and Contingencies (See Notes)			
SHAREHOLDERS' EQUITY			
Capital stock and participation certificates	433,760	427,450	424,660
Allocated retained earnings (Memo Nonqualified)	20,882,039	18,435,269	16,639,446
Unallocated retained earnings	39,695,046	40,171,041	39,059,170
Accumulated other comprehensive income/(loss)	0	0	0
Total shareholders' equity	61,010,845	59,033,760	56,123,276
Total liabilities and shareholders' equity	\$ 305,272,450	\$ 311,011,391	\$ 279,812,097

The accompanying notes are an integral part of these consolidated financial statements

Idaho AgCredit
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31		
	2019	2018	2017
INTEREST INCOME			
Loans	\$ 15,131,425	\$ 13,660,575	\$ 12,039,231
Total interest income	15,131,425	13,660,575	12,039,231
INTEREST EXPENSE			
Note payable to CoBank, ACB	6,820,561	5,932,313	4,866,771
Advance conditional payments	122,503	77,520	52,773
Total interest expense	6,943,064	6,009,833	4,919,544
Net interest income	8,188,361	7,650,742	7,119,687
(Provision for) or Reversal of loan losses and reserves	(389,508)	(14,091)	(51,938)
Net interest income after loss (provision)/reversal	7,798,853	7,636,651	7,067,749
NONINTEREST INCOME			
Patronage distributions from CoBank	944,285	1,140,743	962,020
Patronage distributions from Other Farm Credit Institutions	100,177	75,210	57,869
Loan fees	200,038	170,231	147,478
Financially related services income	3,263	3,715	7,888
Other noninterest income	9,733	8,658	3,766
Total noninterest income	1,257,496	1,398,557	1,179,021
NONINTEREST EXPENSE			
Salaries and employee benefits	2,905,430	2,632,173	2,522,821
Occupancy and equipment	161,189	152,416	150,345
Farm Credit Insurance Fund premium/(net rebate)	123,110	(4,313)	263,000
Supervisory and examination costs	114,186	106,331	103,926
Data processing services	9,720	9,720	9,720
Losses/(Gains) on other property owned, net	0	0	0
Other noninterest expense	792,875	732,561	640,697
Total noninterest expense	4,106,510	3,628,888	3,690,509
Income/(loss) before income taxes	4,949,839	5,406,320	4,556,261
(Provision for)/Benefit from income taxes	(94,728)	(143,393)	(256,173)
Net income/Comprehensive income	\$ 4,855,111	\$ 5,262,927	\$ 4,300,088

The accompanying notes are an integral part of these consolidated financial statements

Idaho AgCredit
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital Stock and Participation Certificates	Allocated Retained Earnings	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2016	\$ 402,745	\$ 15,015,521	\$ 38,517,451	\$ 53,935,717
Net Income/Comprehensive income		1,623,925	2,676,163	4,300,088
Stock issued	170,880			170,880
Stock retired	(148,965)			(148,965)
Patronage distributions:				
Cash			(2,134,444)	(2,134,444)
Allocated retained earnings				0
Other (rounding)				0
Balance at December 31, 2017	\$ 424,660	\$ 16,639,446	\$ 39,059,170	\$ 56,123,276
Net Income/Comprehensive income		1,795,823	3,467,104	5,262,927
Stock issued	162,670			162,670
Stock retired	(159,880)			(159,880)
Patronage distributions:				
Cash			(2,355,233)	(2,355,233)
Allocated retained earnings				0
Other (rounding)				0
Balance at December 31, 2018	\$ 427,450	\$ 18,435,269	\$ 40,171,041	\$ 59,033,760
Net Income/Comprehensive income		2,446,770	2,408,341	4,855,111
Stock issued	161,280			161,280
Stock retired	(154,970)			(154,970)
Patronage distributions:				
Cash			(2,884,335)	(2,884,335)
Allocated retained earnings				0
Other (rounding)			(1)	(1)
Balance at December 31, 2019	\$ 433,760	\$ 20,882,039	\$ 39,695,046	\$ 61,010,845

The accompanying notes are an integral part of these consolidated financial statements

Idaho AgCredit
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31		
CASH FLOWS FROM OPERATING ACTIVITIES:	2019	2018	2017
Net income	\$ 4,855,111	\$ 5,262,927	\$ 4,300,088
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	109,940	104,195	103,356
Provision for loan losses/(Loan loss reversal)	389,507	14,091	51,938
Other, net	(2,205)	0	(1,342)
Change in assets and liabilities:			
(Increase)/Decrease in CoBank stock patronage receivable	65,757	(48,720)	6,283
(Increase)/Decrease in deferred tax asset, net	(92,000)	23,000	(11,000)
(Increase)/Decrease in accrued interest receivable	(42,706)	(283,430)	(120,731)
(Increase)/Decrease in prepaid benefits asset	(166,876)	(22,625)	(151,460)
(Increase)/Decrease in other assets	94,271	(56,543)	65,162
Increase/(Decrease) in accrued interest payable	(11,111)	155,767	72,429
Increase/(Decrease) in accrued benefits liability	0	0	0
Increase/(Decrease) in other liabilities	82,634	(930,498)	843,659
Net cash provided by/(used in) operating activities	5,282,322	4,218,164	5,158,382
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase)/Decrease in loans, net	5,200,110	(28,869,169)	(164,371)
Purchases of premises and equipment	(303,305)	(92,642)	(40,909)
Proceeds from sales of premises and equipment	2,205	0	1,342
(Increases) in CoBank stock	(9,782)	(10,348)	(10,464)
Proceeds from sales of other property owned	0	0	0
Net cash provided by/(used in) investing activities	4,889,228	(28,972,159)	(214,402)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayment of)/draw on note payable to CoBank	(9,607,595)	29,234,235	(5,918,201)
Increase/(Decrease) in advance conditional payments	1,280,756	(391,240)	694,088
Capital stock and participation certificates retired	(154,970)	(159,880)	(148,965)
Capital stock and participation certificates issued	161,280	162,670	170,880
Cash patronage distributions paid	(2,355,234)	(2,134,444)	(2,080,951)
Net cash provided by/(used in) financing activities	(10,675,763)	26,711,341	(7,283,149)
Net (decrease)/increase in cash	(504,213)	1,957,346	(2,339,169)
Cash at beginning of year	1,957,346	0	2,339,169
Cash at end of year	\$ 1,453,133	\$ 1,957,346	\$ 0
SUPPLEMENTAL CASH INFORMATION:			
Cash paid/(received) during the year for:			
Interest	\$ 6,954,175	\$ 5,854,066	\$ 4,847,115
Income taxes	172,829	169,002	331,956
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Stock Patronage from CoBank	\$ 9,782	\$ 10,348	\$ 10,464
Financed sales of other property owned	0	0	0
Loans transferred to other property owned	0	0	0
Net charge-offs/(recoveries)	0	0	0
Premises and equipment acquired under capital leases	0	0	0
Patronage distributions payable	2,884,335	2,355,233	2,134,444
Changes in unrealized losses/gains in other comprehensive income	0	0	0
Transfer of allowance from (into) reserve for unfunded commitments	10,189	(243)	11,910

The accompanying notes are an integral part of these consolidated financial statements

Idaho AgCredit
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND OPERATIONS

- A. **Organization:** Idaho AgCredit, ACA and its subsidiaries Idaho AgCredit, PCA and Idaho AgCredit, FLCA, (collectively "Association") are member-owned cooperatives which provide credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the Idaho counties of Bannock, Bear Lake, Blaine, Bingham, Bonneville, Butte, Camas, Caribou, Cassia, Clark, Custer, Franklin, Fremont, Gooding, Jefferson, Jerome, Lemhi, Lincoln, Madison, Minidoka, Oneida, Power, Teton, Twin Falls, and that part of Owyhee County commencing at the southwest corner of Twin Falls County, Idaho, thence west along the north boundary line of the state of Nevada, to the southwest corner of Section Thirty-four, Township Sixteen South, Range Seven East, Boise Meridian, thence north to the northwest corner of Section Three, Township Ten South, Range Seven East, Boise Meridian, thence east to the boundary line of Twin Falls County, Idaho, thence south to the point of beginning; and in the state of Wyoming, all of Teton county and that portion of Lincoln county north of the forty-second parallel.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned Banks and Associations which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). At December 31, 2019, the System was composed of three Farm Credit Banks, one Agricultural Credit Bank and 68 associations.

CoBank, ACB (funding bank or the "Bank"), its related associations and AgVantis, Inc. (AgVantis) are collectively referred to as the District. CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provides technology and other operational services to certain associations and to CoBank. The CoBank District consists of CoBank, 21 Agricultural Credit Associations (ACA) which each have two wholly owned subsidiaries (a Federal Land Credit Association (FLCA) and a Production Credit Association (PCA)) and AgVantis.

ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans and the PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on System-wide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments or such other percentage of the aggregate obligations as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions.

- B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services which can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, advance conditional payment accounts and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses. The Association also serves as an intermediary in offering credit life insurance and crop insurance.

Upon request, stockholders of the Association will be provided with a CoBank Annual Report to Stockholders, which includes the combined financial statements of the Bank and its related Associations. The Association's financial condition may be impacted by factors that affect the Bank. The CoBank Annual Report discusses the material aspects of the District's financial condition, changes in financial condition, and results of operations. The CoBank Annual Report also identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Corporation. In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis. The CoBank Annual Report to Stockholders is available free of charge as described in the Business Overview section of Management's Discussion and Analysis.

Idaho AgCredit
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires Association management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements. Actual results may differ from these estimates. Significant estimates are discussed in these footnotes as applicable.

The consolidated financial statements include the accounts of Idaho AgCredit, ACA and its wholly owned subsidiaries, Idaho AgCredit, PCA and Idaho AgCredit, FLCA and reflect the investments in, and allocated earnings of, the service organizations in which CoBank and Associations have partial ownership interests in for the years ended December 31, 2019, 2018 and 2017. All significant inter-company transactions have been eliminated in consolidation. Recently issued accounting pronouncements follow.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance entitled “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Cost.” The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. The guidance also requires an entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. It further specifies where to present expense and payments in the financial statements. Early adoption is permitted. The guidance is to be applied on a retrospective or prospective basis to all implementation costs incurred after the date of adoption. Management is evaluating the impact of adoption on the Association’s financial condition and its results of operations.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans.” The guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This guidance becomes effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The guidance is to be applied on a retrospective basis for all periods. The adoption of this guidance will not impact the Association’s financial condition or its results of operations, but will impact the employee benefit plan disclosures.

In August 2018, the FASB issued guidance entitled “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement.” The guidance modifies the requirements on fair value measurements by removing, modifying or adding to the disclosures. This guidance becomes effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted and an entity is permitted to early adopt any removal or modified disclosures and delay adoption of the additional disclosures until their effective date. The Association early adopted the removal and modified disclosures during the fourth quarter of 2018. The adoption of this guidance did not impact the Association’s financial condition or its results of operations, but did impact the fair value measurements disclosures.

In August 2017, the FASB issued guidance entitled “Targeted Improvements to Accounting for Hedging Activities.” The guidance better aligns an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments in this guidance require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance also addresses the timing of effectiveness testing, qualitative and quantitative effectiveness testing and components that can be excluded from effectiveness testing. This guidance became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association’s financial condition.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers, this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. On October 16, 2019, the FASB approved deferral of the effective date for certain entities for this guidance by two years, which will result in the new credit loss standard becoming effective for interim and annual reporting periods beginning after December 15, 2022. The Association qualifies for the delay in the adoption date. The Association continues to evaluate the impact of adoption on its financial condition and its results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. The guidance and related amendments in this update became effective for interim and annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the Association financial condition and results of operations.

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Below is a summary of our significant accounting policies.

A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are expensed as incurred. This treatment does not result in a material difference versus capitalizing such costs where the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restricted in a troubled debt restructuring is an impaired loan.

When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectability of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower. In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a troubled debt restructuring. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The Association purchases loan and lease participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System entities to reduce risk and comply with established lending limits. When loans are sold, the sale terms comply with requirements under ASC 860 "Transfers and Servicing".

The Association uses a two-dimensional loan rating model based on internally generated combined System risk rating guidance that incorporates a 14-point risk-rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the probability of default categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows

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significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through reversals of provisions for loan losses and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association's expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

The allowance for loan losses includes components for loans individually evaluated for impairment, loans collectively evaluated for impairment and loans acquired with deteriorated credit quality. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk rating model as previously discussed.

The amount of current loan balance is used for calculating the allowance for loan losses. In addition to the allowance calculated using the customer's probability of default and expected loss given default ratings, a portion is calculated to reflect management's estimate of additional allowance required by other factors considered in determining the allowance for loan losses. A summary of these amounts as of December 31 are as follows.

	2019	2018	2017
Allowance evaluated collectively	\$ 680,208	\$ 593,474	\$ 579,140
Allowance evaluated individually	292,585	0	0
Allowance evaluated by management estimate	600,000	600,000	600,000
Total Allowance	\$ 1,572,793	\$ 1,193,474	\$ 1,179,140

- B. **Cash:** Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At December 31, 2019, 2018, and 2017, the carrying value of the Association's cash adjusted for outstanding checks and deposits in transit totaled \$1,453,133, \$1,957,346 and \$0. Bank balances totaled \$1,621,692, \$2,289,048 and \$2,668,521 respectively. Of these bank balances, only \$250,000 was covered by standard federal depository insurance. The daily balance of depository accounts varies throughout the year since the Association must wait for deposited funds to become collected funds before it can use the funds to reduce its note payable to CoBank.
- C. **Investment in CoBank:** The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00% of the prior year's average direct loan volume. The investment in CoBank is composed of patronage based stock and purchased stock. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00% of the prior ten-year average of such participations sold to CoBank.
- D. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The useful life for buildings is 39 years and ranges from 3 to 10 years for furniture, equipment and automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.
- E. **Other Assets and Other Liabilities:** Other assets are composed primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions other than CoBank. Significant components of other liabilities primarily include accounts payable and employee benefits.
- F. **Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advance conditional payments are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in liabilities. Restricted advance conditional payments are primarily associated with mortgage loans, while non-restricted advance conditional payments are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Advance conditional payments are not insured. Interest is generally paid by the Association on advance

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conditional payments.

- G. **Employee Benefit Plans:** Substantially all employees of the Association participate in the Farm Credit Foundations Defined Contribution/401(k) Plan (Defined Contribution Plan). Some former employees participate in the Eleventh District Defined Benefit Retirement Plan (Defined Benefit Plan). The Defined Benefit Plan is a noncontributory plan, and benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding to the Defined Benefit Plan. The Defined Benefit Plan was closed to employees hired after December 31, 1997.

The Defined Contribution Plan has two components. Employees may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998 are eligible to participate only in the Defined Contribution Plan and Salary Deferral Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundations Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

- H. **Patronage Distribution from CoBank:** Patronage distributions from CoBank are accrued by the Association in the year earned.
- I. **Income Taxes:** As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, are subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state or local laws.

The Association elected to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage distributions. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the Association and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been recorded by the Association on approximately \$7,344,200 of stock patronage distributions received from the Bank prior to January 1, 1993, the adoption date of accounting guidance on income taxes. Association management's intent is to permanently invest these and other undistributed earnings in the Bank, or if converted to cash, to pass through any such earnings to Association borrowers through qualified patronage allocations.

The Association has not provided deferred income taxes on amounts allocated to the Association which relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Deferred income taxes have not been provided on approximately \$2,139,080 of patronage refunds distributed to the taxable PCA by U.S. AgBank, FCB after December 31, 1992 and prior to December 2011 or on additional distributions on December 31, 2011 of \$755,815 to the taxable PCA and \$668,105 to the tax exempt FLCA. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings.

In 1995, the Idaho State Tax Commission made a declaratory ruling for Northwest Farm Credit Services ACA, indicating that it was not subject to Idaho income taxes. However, in 2013 the Idaho State Tax Commission revoked this ruling on a prospective basis. In 2014 the Association received a ruling that its ACA and PCA entities are taxable and that taxes would be due on a prospective basis beginning with the 2013 tax year. The FLCA entity is exempt from federal and other income taxes as provided in the Farm Credit Act.

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- J. **Other Comprehensive Income/Loss:** Other comprehensive income/(loss) refers to revenue, expenses, gains and losses that under GAAP are recorded as an element of shareholders' equity and comprehensive income but are excluded from net income. Accumulated other comprehensive income/loss refers to the balance of these transactions.
- K. **Fair Value Measurement:** Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Association did not have any significant assets or liabilities on the Consolidated Statements of Financial Condition measured at fair value. The Association early-adopted FASB 2016-01 guidance, including subtopic 825-10, which eliminated the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities.
- L. **Off-balance-sheet credit exposures:** Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and a third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.
- M. **Regulatory Capital:** The Association is regulated by the FCA. Failure to meet minimum capital requirements can initiate certain mandatory and/or discretionary actions by the FCA that could have a direct material effect on the Association's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Association's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. Regulations prohibit extending the total credit to one borrower or group of related borrowers in excess of 15% of permanent capital and policies further limit the maximum credit available based on various risk factors. Management believes the Association meets all capital adequacy requirements to which it is subject as of December 31, 2019.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows as of December 31.

	2019	2018	2017
Real estate mortgage	\$ 172,849,056	\$ 161,845,709	\$ 141,405,642
Production and intermediate-term	105,286,151	115,297,015	111,846,566
Agribusiness	8,335,044	14,527,637	9,548,984
Rural residential real estate	0	0	0
Total loans	\$ 286,470,251	\$ 291,670,361	\$ 262,801,192

The Association makes variable, capped variable, fixed, adjustable, prime-based and London Interbank Offered Rate (LIBOR)-based rate loans to borrowers. Substantially all of the Association's fixed and capped variable rate loans are funded through CoBank to match the pricing, maturity and option characteristics of loans to borrowers. A small portfolio of primarily LIBOR indexed loans are not match-funded. The Board has established guidance for pricing all loans, and can change variable rates as necessary. As of December 31, the Association had the following loan volume by interest rate program.

	2019	2018	2017
Variable	\$ 113,866,850	\$ 131,476,196	\$ 117,804,153
LIBOR	879,733	1,671,479	1,751,654
Fixed	170,167,289	156,774,099	141,218,237
Other (capped variable, adjustable, prime)	1,556,379	1,748,587	2,027,148
Total loans	\$ 286,470,251	\$ 291,670,361	\$ 262,801,192

The Association purchases or sells loan participations with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding all participations purchased and sold as of December 31, 2019.

	Other Farm Credit Institutions	
	Purchased	Sold
Real estate mortgage	\$ 41,546,889	\$ 11,656,928
Production and intermediate term	293,099	6,973,275
Agribusiness	3,224,584	1,152,780
Total	\$ 45,064,572	\$ 19,782,983

The Association currently has no loans to cooperatives and no communication, energy, water/waste water, mission-related,

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agricultural export, or lease receivable loans. All of the Association's participation loans are with other Farm Credit Institutions.

A significant source of liquidity for the Association is the repayment and maturities of loans. The following table presents the contractual maturity distribution of loans by type at December 31, 2019 and indicates that approximately 18.8% of loans had maturities of one year or less.

	Due in 1 year or less	Due after 1 through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 820,227	\$ 5,872,551	\$ 166,156,278	\$ 172,849,056
Production & intermediate-term	52,367,023	45,469,843	7,449,285	105,286,151
Agribusiness	673,236	3,484,674	4,177,134	8,335,044
Total Loans	\$ 53,860,486	\$ 54,827,068	\$ 177,782,697	\$ 286,470,251
Percentage of Loans	18.8%	19.1%	62.1%	100.0%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table as of December 31.

(dollars in thousands) Commodity	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
Potatoes	\$ 42,971	15.0%	\$ 51,042	17.5%	\$ 53,086	20.2%
Grain (wheat, malt and feed barley)	44,116	15.4%	46,084	15.8%	43,362	16.5%
Cash rent	29,793	10.4%	34,709	11.9%	27,857	10.6%
Beef cattle	32,371	11.3%	32,959	11.3%	28,908	11.0%
Hay	28,361	9.9%	27,417	9.4%	25,492	9.7%
Milk and dairy cattle	25,209	8.8%	24,792	8.5%	20,498	7.8%
Sugar beets	13,464	4.7%	13,708	4.7%	14,191	5.4%
Outside income (mostly wages)	8,308	2.9%	4,375	1.5%	4,468	1.7%
Other	61,877	21.6%	56,584	19.4%	44,939	17.1%
Total	\$ 286,470	100.0%	\$ 291,670	100.0%	\$ 262,801	100.0%

While the percentages shown in the previous table represent the relative amounts of the Association's potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded balances.

Approximately 80% of the Association's loans outstanding balance is attributable to 102 borrowers. Due to the size of their loans, the loss of any of these borrowers or the failure of any of these borrowers to perform would adversely affect the portfolio and the Association's future operating results.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland, machinery and equipment and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed or enhanced by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association has obtained credit enhancements by entering into Standby Commitment to Purchase Agreements (Agreements) with the Federal Agricultural Mortgage Corporation (Farmer Mac), covering loans with principal balance outstanding of \$9,276,204, \$9,633,303 and \$9,968,293 at December 31, 2019, 2018 and 2017. Under the Agreements, Farmer Mac agrees to purchase loans from the Association in the event of default (typically four months past due), subject to certain conditions, thereby mitigating the risk of loss from covered loans. In return, the Association pays Farmer Mac commitment fees based on the outstanding balance of loans covered by the Agreements. Such fees, totaling \$37,581, \$38,980 and \$40,187 for 2019, 2018 and 2017 are reflected in noninterest expense.

In addition to Farmer Mac, credit enhancements with federal government agencies of \$22,390,660, \$27,049,133 and \$24,039,741 were outstanding at year ends 2019, 2018 and 2017.

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality,
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness.
- Substandard – assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional

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weaknesses in existing factors, conditions and values that make collection in full highly questionable, and

- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2019	2018	2017
Real estate mortgage			
Acceptable	97.1%	94.1%	94.2%
OAEM	1.4%	2.8%	4.4%
Substandard	1.5%	3.1%	1.4%
Doubtful	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%
Production and intermediate term			
Acceptable	96.8%	96.0%	94.5%
OAEM	2.0%	0.5%	1.6%
Substandard	0.9%	3.5%	3.9%
Doubtful	0.3%	0.0%	0.0%
	100.0%	100.0%	100.0%
Agribusiness			
Acceptable	100.0%	100.0%	100.0%
OAEM	0.0%	0.0%	0.0%
Substandard	0.0%	0.0%	0.0%
Doubtful	0.0%	0.0%	0.0%
	100.0%	100.0%	100.0%
Total loans			
Acceptable	97.1%	95.1%	94.5%
OAEM	1.6%	1.8%	3.1%
Substandard	1.2%	3.1%	2.4%
Doubtful	0.1%	0.0%	0.0%
	100.0%	100.0%	100.0%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. The following table presents information relating to impaired loans including accrued interest as of December 31.

Nonaccrual loans:	2019	2018	2017
Current as to principal and interest	\$ 668,280	\$ 2,604,497	\$ 703,918
Past due	1,511,282	0	536,568
Total nonaccrual loans	2,179,562	2,604,497	1,240,486
Impaired accrual loans:			
90 days or more past due	0	0	0
Total impaired accrual loans	0	0	0
Total impaired loans	\$ 2,179,562	\$ 2,604,497	\$ 1,240,486

There were no loans classified as accruing restructured or accruing loans 90 days or more past due for the years presented. There were no material commitments to lend additional funds to debtors whose loans were classified as impaired for the years presented.

High risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These nonperforming assets (including related accrued interest) as of December 31 are as follows:

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	2019	2018	2017
<u>Nonaccrual loans:</u>			
Real estate mortgage	\$ 576,175	\$ 496,846	\$ 37,058
Production and Intermediate term	1,603,387	2,107,651	536,646
Agribusiness	0	0	666,782
Total nonaccrual loans	2,179,562	2,604,497	1,240,486
<u>Accruing restructured loans:</u>			
Total accruing restructured loans	0	0	0
<u>Accruing loans 90 days or more past due:</u>			
Total accruing loans 90 days or more past due	0	0	0
Total impaired loans	2,179,562	2,604,497	1,240,486
Other property owned	0	0	0
Total high risk assets	\$ 2,179,562	\$ 2,604,497	\$ 1,240,486

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Additional impaired loan information is as follows:

Impaired Loans	At December 31			For Year Ended December 31		
	Recorded Investment	Contractual Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized	
2019						
<u>With a Related Allowance</u>						
Production and intermediate term	\$ 309,184	\$ 312,378	\$ 292,585	\$ 585,594	\$	0
Total	\$ 309,184	\$ 312,378	\$ 292,585	\$ 585,594	\$	0
<u>With No Related Allowance</u>						
Real estate mortgage	\$ 576,175	\$ 643,777	\$ 0	\$ 517,629	\$	0
Production and intermediate term	1,294,203	1,475,803	0	1,865,813		0
Agribusiness	0	0	0	0		0
Total	\$ 1,870,378	\$ 2,119,580	\$ 0	\$ 2,383,442	\$	0
<u>Total Impaired Loans:</u>						
Real estate mortgage	\$ 576,175	\$ 643,777	\$ 0	\$ 517,629	\$	0
Production and intermediate term	1,603,387	1,788,181	292,585	2,451,407		0
Agribusiness	0	0	0	0		0
Total	\$ 2,179,562	\$ 2,431,958	\$ 292,585	\$ 2,969,036	\$	0
2018						
<u>With a Related Allowance</u>						
Production and intermediate term	\$ 0	\$ 0	\$ 0	\$ 0	\$	0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$	0
<u>With No Related Allowance</u>						
Real estate mortgage	\$ 496,846	\$ 558,934	\$ 0	\$ 182,264	\$	0
Production and intermediate term	2,107,651	2,242,007	0	768,597		54,648
Agribusiness	0	0	0	422,104		0
Total	\$ 2,604,497	\$ 2,800,941	\$ 0	\$ 1,372,965	\$	54,648
<u>Total Impaired Loans:</u>						
Real estate mortgage	\$ 496,846	\$ 558,934	\$ 0	\$ 182,264	\$	0
Production and intermediate term	2,107,651	2,242,007	0	768,597		54,648
Agribusiness	0	0	0	422,104		0
Total	\$ 2,604,497	\$ 2,800,941	\$ 0	\$ 1,372,965	\$	54,648
2017						
<u>With a Related Allowance</u>						
Production and intermediate term	\$ 0	\$ 0	\$ 0	\$ 612,922	\$	11,165
Total	\$ 0	\$ 0	\$ 0	\$ 612,922	\$	11,165
<u>With No Related Allowance</u>						
Real estate mortgage	\$ 37,058	\$ 93,121	\$ 0	\$ 59,607	\$	0
Production and intermediate term	536,646	574,192	0	768,750		26,349
Agribusiness	666,782	749,134	0	401,335		0
Total	\$ 1,240,486	\$ 1,416,447	\$ 0	\$ 1,229,692	\$	26,349
<u>Total Impaired Loans:</u>						
Real estate mortgage	\$ 37,058	\$ 93,121	\$ 0	\$ 59,607	\$	0
Production and intermediate term	536,646	574,192	0	1,381,672		37,514
Agribusiness	666,782	749,134	0	401,335		0
Total	\$ 1,240,486	\$ 1,416,447	\$ 0	\$ 1,842,614	\$	37,514

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2, Summary of Significant Accounting Policies. The following table presents interest income recognized on impaired loans for the year ended December 31.

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	2019		2018		2017
Interest income recognized on nonaccrual loans	\$ 0	\$	54,648	\$	37,514
Interest income on impaired accrual loans	0		0		0
Interest income recognized on impaired loans	\$ 0	\$	54,648	\$	37,514

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows for the year ended December 31.

	2019		2018		2017
Interest income which would have been recognized under the original loan terms	\$ 188,536	\$	163,916	\$	100,514
Less: interest income recognized	0		54,648		37,514
Foregone (additional nonaccrual) interest income	\$ 188,536	\$	109,268	\$	63,000

The following table provides an age analysis of past due loans (including accrued interest) as of December 31.

(Dollars in Thousands)	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or <30 Days Past Due	Recorded Investment in Loans Outstanding	Recorded Investment >90 Days and Accruing
2019						
Real estate mortgage	\$ 0	\$ 468	\$ 468	\$ 175,753	\$ 176,221	\$ 0
Production and intermediate term	462	1,043	1,505	105,256	106,761	0
Agribusiness	61	0	61	8,329	8,390	0
Total	\$ 523	\$ 1,511	\$ 2,034	\$ 289,338	\$ 291,372	\$ 0
2018						
Real estate mortgage	\$ 0	\$ 0	\$ 0	\$ 165,042	\$ 165,042	\$ 0
Production and intermediate term	64	0	64	116,756	116,820	0
Agribusiness	0	0	0	14,667	14,667	0
Total	\$ 64	\$ 0	\$ 64	\$ 296,465	\$ 296,529	\$ 0
2017						
Real estate mortgage	\$ 0	\$ 0	\$ 0	\$ 144,557	\$ 144,557	\$ 0
Production and intermediate term	555	0	555	112,675	113,230	0
Agribusiness	52	0	52	9,537	9,589	0
Total	\$ 607	\$ 0	\$ 607	\$ 266,769	\$ 267,376	\$ 0

The recorded investment in the loan receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisitions costs and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Association had no troubled debt restructurings that occurred during the years 2019, 2018 or 2017.

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A summary of changes in the allowance for loan losses and period end recorded investment in loans including accrued interest is as follows:

	Prior year End Balance	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Ending Balance
2019					
Real estate mortgage	\$ 545,968	\$ 0	\$ 0	\$ 8,179	\$ 554,147
Production and intermediate-term	623,434	0	0	373,885	997,319
Agribusiness	24,072	0	0	(2,745)	21,327
Total	\$ 1,193,474	\$ 0	\$ 0	\$ 379,319	\$ 1,572,793

2018					
Real estate mortgage	\$ 517,797	\$ 0	\$ 0	\$ 28,171	\$ 545,968
Production and intermediate-term	653,870	0	0	(30,436)	623,434
Agribusiness	7,473	0	0	16,599	24,072
Total	\$ 1,179,140	\$ 0	\$ 0	\$ 14,334	\$ 1,193,474

2017					
Real estate mortgage	\$ 494,611	\$ 0	\$ 0	\$ 23,186	\$ 517,797
Production and intermediate-term	640,858	0	0	13,012	653,870
Agribusiness	3,643	0	0	3,830	7,473
Total	\$ 1,139,112	\$ 0	\$ 0	\$ 40,028	\$ 1,179,140

	Allowance for Credit Losses		Recorded Investments in Loans Outstanding	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
2019				
Real estate mortgage	\$ 0	\$ 554,147	\$ 576,175	\$ 175,644,709
Production and intermediate-term	292,585	704,734	1,603,387	105,157,267
Agribusiness	0	21,327	0	8,390,084
Total	\$ 292,585	\$ 1,280,208	\$ 2,179,562	\$ 289,192,060

2018				
Real estate mortgage	\$ 0	\$ 545,968	\$ 496,846	\$ 164,545,010
Production and intermediate-term	0	623,434	2,107,651	114,712,108
Agribusiness	0	24,072	0	14,667,411
Total	\$ 0	\$ 1,193,474	\$ 2,604,497	\$ 293,924,529

2017				
Real estate mortgage	\$ 0	\$ 517,797	\$ 37,058	\$ 144,519,615
Production and intermediate-term	0	653,870	536,646	112,693,799
Agribusiness	0	7,473	666,782	8,922,527
Total	\$ 0	\$ 1,179,140	\$ 1,240,486	\$ 266,135,941

The Association maintains a separate reserve for losses on loan commitments, which is included as a separate line item in liabilities on the Consolidated Statements of Financial Condition. The related provision for the reserve for loss on loan commitments is included as part of the provision for loan losses and reserves on the Consolidated Statements of Comprehensive Income. A summary of changes in the reserve follows:

	2019	2018	2017
Reserve balance at beginning of year	\$ 41,938	\$ 42,181	\$ 30,271
Provision (reversal of provision)	10,189	(243)	11,910
Reserve balance at end of year	\$ 52,127	\$ 41,938	\$ 42,181

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2019, the Association's investment in CoBank is in the form of Class A stock with a par value of \$100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00% of the Association's prior year average

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direct loan balance. The requirement for capitalizing patronage-based participation loans sold to CoBank is 8.00% of the Association's prior ten-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75% cash and 25% Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements for its joint and several liability under the Farm Credit Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate. The Association owned approximately .30% of the outstanding common stock of CoBank at December 31, 2019.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following as of December 31.

	2019	2018	2017
Land	\$ 112,360	\$ 82,360	\$ 82,360
Buildings and improvements	1,796,315	1,528,927	1,528,927
Furniture and equipment	414,968	438,120	387,739
Automobiles	239,722	257,227	228,924
	\$ 2,563,365	\$ 2,306,634	\$ 2,227,950
Less: accumulated depreciation	1,205,124	1,141,758	1,051,521
Total	\$ 1,358,241	\$ 1,164,876	\$ 1,176,429

As of year end 2019, the Association has no premise or equipment leases. At year ends 2018 and 2017, the Association had an office lease with a one year or less term, with annual lease payments of about \$17,500 plus a share of utilities and taxes.

NOTE 6 – OTHER PROPERTY OWNED

There was no other property owned (property acquired through loan collection activities) in 2019, 2018, or 2017 and therefore no impact on the Consolidated Statements of Comprehensive Income for these periods.

NOTE 7 – NOTES PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to CoBank and is governed by a General Financing Agreement (GFA), which provides a variable line-of-credit subject to a borrowing base calculation. At December 31, 2019, \$236.4 million had been drawn against the borrowing base of \$280.7 million, compared to \$246.0 million drawn against the borrowing base of \$287.3 million at December 31, 2018 and \$216.6 million drawn of \$256.5 million at December 31, 2017. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on May 31, 2023. Management expects renewal of the GFA at that time. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2019. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the GFA. The weighted average interest rate was 2.85%, 2.74% and 2.37% for the years ended December 31, 2019, 2018 and 2017.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed funds balance classified as a reduction of interest expense. These committed loanable funds are netted against the note payable to CoBank. There were no committed loanable funds as of December 31, 2019, 2018 or 2017.

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. We maintain a \$500,000 line of credit with a commercial bank but did not borrow on that line of credit in 2019, 2018 or 2017. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's notes payable are within the specified limitations.

NOTE 8 – SHAREHOLDERS' EQUITY

Descriptions of the Association's capitalization, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

- A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock or participation certificates at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal of the related loan obligation. The Association has a first lien on the stock or participation certificates owned by its borrowers. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in

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retirement of the corresponding stock or participation certificates.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00% of the amount of the loan to 8.00% of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. The Association's current stock requirement of the lesser of one thousand dollars or 2.00% of the borrower's combined loan volume did not change during any of the years presented.

B. Regulatory Capitalization Requirements and Restrictions: The Farm Credit Administration sets minimum regulatory capital requirements for Banks and Associations. Effective January 1, 2017, new regulatory capital requirements for Banks and Associations were adopted. These new requirements replaced the core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 Capital and Total Capital (aka Total Regulatory Capital) risk-based capital ratio requirements. The new requirements also replaced the existing net collateral ratio for System Banks with a Tier 1 Leverage ratio and an Unallocated Retained Earnings (URE) and URE Equivalents Leverage ratio that are applicable to both the Banks and Associations. The Permanent Capital Ratio continues to remain in effect; however, the risk-adjusted assets are calculated differently than in the past. The following sets forth the regulatory capital ratio requirements and ratios at December 31:

Ratio	Numerator	Denominator	2019	2018	2017	Minimum with Buffer*	Minimum
Common Equity Tier 1 (CET1 Capital)	Unallocated retained earnings (URE), common cooperative equities (qualifying capital stock and allocated equity) ¹	Risk-adjusted assets	16.93%	16.21%	17.21%	7.00%	4.50%
Tier 1 Capital	CET1 Capital, non-cumulative perpetual preferred stock	Risk-adjusted assets	16.93%	16.21%	17.21%	8.50%	6.00%
Total Regulatory Capital	Tier 1 Capital, allowance for loan losses ² , common cooperative equities ³ , and term preferred stock and subordinated debt ⁴	Risk-adjusted assets	17.49%	16.63%	17.68%	10.50%	8.00%
Tier 1 Leverage**	Tier 1 Capital	Total assets	16.84%	15.93%	16.76%	5.00%	4.00%
Unallocated Retained Earnings and URE Equivalents (UREE Leverage)	URE and URE Equivalents	Total assets	16.69%	15.79%	16.60%	1.50%	1.50%
Permanent Capital	Retained earnings, common stock, non-cumulative perpetual preferred stock and subordinated debt subject to certain limits	Risk-adjusted assets	17.72%	17.14%	18.43%	7.00%	7.00%

* The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. There is no phase-in of the leverage buffer. Amounts shown reflect the full capital conservation buffer.

** Must include the regulatory minimum requirement for the URE and UREE Leverage ratio.

¹ Equities outstanding 7 or more years

² Capped at 1.25% of risk-adjusted assets

³ Outstanding 5 or more years, but less than 7 years

⁴ Outstanding 5 or more years

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

The Association has a formal written Capital Adequacy Plan which has the following objectives:

- Maintain adequate Association capital to meet all regulatory and System requirements;
- Provide protection against risks inherent in the Association's operations;
- Provide sufficient capital for future asset growth;
- Allow the Association to operate profitably over the long-term;
- Maintain a competitive market position; and
- Increase Association surplus, thereby reducing the reliance on borrower stock for capitalization needs.

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Further information regarding the Capital Adequacy Plan is included under the heading of Capital Resources in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

An existing regulation empowers FCA to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. This regulation has not been utilized to date. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

- C. **Description of Equities:** Each owner of class C capital stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

At December 31, 2019, the Association had the following classes of equity outstanding, all at par value of \$5.00 per share/unit, and all at risk.

Class	Number of Shares	Voting	Protected
A - common stock	0	no	no
C - common stock	84,103	yes	no
F - participation certificates	2,649	no	no

Although the Association is authorized by its bylaws to issue other classes of stock as listed below, no shares are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

Class	Number of Shares	Voting	Protected
C - preferred stock	0	no	no
D - stock	0	no	yes
E - participation certificates	0	no	yes
Assistance preferred stock	0	no	no

As discussed above in this note under the section titled Regulatory Capitalizations Requirements and Restrictions, if capital ratios fall below the total requirements, equity redemptions are prohibited without FCA approval. The Association is currently not prohibited from retiring capital stock and presently foresees no realistic situation why retirement would be prohibited in the future. All distributions to the holders of any class of stock or participation certificate shall be made pro-rata in proportion to the number of shares or units of such class of stock or participation certificate held.

Losses that result in impairment of capital stock and participation certificates will be allocated to the classes of equity described above as follows: First, to the holders of class C preferred stock until an amount equal to the aggregate par value of all shares of said Stock then issued and outstanding has been distributed to such holders; Second, to the holders of class A common stock, class C common stock, Participation Certificates, and Class D Stock, pro-rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; Third, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; Fourth, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and Fifth, any remaining assets of the Association after such distributions shall be distributed to past and present Patrons on a patronage basis, to the extent practical. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities. Any assets remaining after such distribution will be distributed to past and present Patrons on a patronage basis, to the extent practical.

- D. **Patronage and/or Dividends:** Consistent with the Association's bylaws and Subchapter T of the Internal Revenue Code, the Association adopted a patronage program beginning in 2007. At each year end, the Board of Directors evaluates whether to retain the Association's net income to strengthen its capital position or to distribute a portion of the net income to customers by declaring a qualified/cash patronage refund. For 2019, the Association allocated 98.6% of its patronage sourced net income to its patrons. That portion of patronage-sourced net income not distributed in cash is also allocated to patrons. Allocated, but not distributed patronage refunds, are included in the unallocated retained earnings account. Such allocations may provide a future basis for a distribution of capital. In accordance with Internal Revenue Service requirements, each customer is sent a nonqualified written notice of allocation for patronage sourced net income which is not distributed as cash. A portion of patronage sourced income may be ineligible for cash distribution or noncash allocation to patrons in accordance with the terms of the patronage program and such amounts are also added to unallocated retained earnings. The Board of Directors considers unallocated retained earnings from both patronage sourced and non-patronage sourced earnings to be permanently invested in the Association. As such, there is no current plan to revolve or redeem these amounts. No express or implied right to have such capital retired or revolved at any time is granted.

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NOTE 9 – PATRONAGE DISTRIBUTIONS FROM FARM CREDIT INSTITUTIONS.

Patronage income recognized from Farm Credit institutions to the Association follows for the year ended December 31.

	2019	2018	2017
CoBank	\$ 944,285	\$ 1,140,743	\$ 962,020
Other	100,177	75,210	57,869
Total	\$ 1,044,462	\$ 1,215,953	\$ 1,019,889

Patronage distributed from CoBank was in cash and stock. The amount earned in 2019 was accrued and will be paid by CoBank in March 2020. The amount earned in 2018 included a special cash payment of \$129,000 which was receipted in 2018 and the rest was paid by CoBank in March 2019. The amount earned and accrued in 2017 was paid by CoBank in March of 2018. Most patronage from other Farm Credit institutions was accrued and paid in cash in the year it was declared, although a small amount was accrued in the year shown and was or will be paid in cash in the following year.

NOTE 10 – INCOME TAXES

The provision for/(benefit from) income taxes follows for the year ended December 31.

	2019	2018	2017
Current federal tax provision	\$ 137,891	\$ 80,571	\$ 215,905
Current state tax provision	48,837	39,822	51,268
Deferred federal tax provision(benefit)	(67,000)	20,000	(10,000)
Deferred state tax provision(benefit)	(25,000)	3,000	(1,000)
Provision for income taxes	\$ 94,728	\$ 143,393	\$ 256,173

The provision for/(benefit from) income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the year ended December 31.

	2019	2018	2017
Federal tax at statutory rate	\$ 1,039,467	\$ 1,135,327	\$ 1,549,129
State tax, net	38,333	82,288	61,528
Effect of non-taxable FLCA subsidiary	(901,765)	(839,731)	(1,120,805)
Patronage distributions to borrowers	(80,240)	(128,775)	(200,652)
Other, net	(1,067)	(105,716)	(33,027)
Provision for income taxes	\$ 94,728	\$ 143,393	\$ 256,173

Deferred tax assets and liabilities result from the following as of December 31.

	2019	2018	2017
Deferred income tax assets			
Allowance for loan losses	\$ 284,000	\$ 181,000	\$ 271,000
Nonaccrual loan interest	37,000	23,000	28,000
Pension expense	20,000	21,000	30,000
Gross deferred tax asset	\$ 341,000	\$ 225,000	\$ 329,000
Less: valuation allowance	(37,000)	(16,000)	(32,000)
Gross def. tax assets, net valuation allowance	\$ 304,000	\$ 209,000	\$ 297,000
Deferred income tax liabilities			
Depreciation	(93,000)	(65,000)	(30,000)
Other	(110,000)	(135,000)	(235,000)
Gross deferred tax liability	\$ (203,000)	\$ (200,000)	\$ (265,000)
Net deferred tax asset	\$ 101,000	\$ 9,000	\$ 32,000

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings, including the amount of non-patronage income and patronage income retained. The expected future tax rates are based upon enacted tax laws. The Association recorded a valuation allowance of \$37,000 during 2019, \$16,000 during 2018 and \$32,000 during 2017. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association has no uncertain tax positions to be recognized as of December 31, 2019, 2018 or 2017. The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. The Association accounts for income taxes in accordance with ASC 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more-likely-than-not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more-likely-than-not to be realized. Tax positions not

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deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Certain former employees participate in the Eleventh Retirement Plan, a 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 eligible 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 the Association chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, an individual employer is not able to unilaterally change the provisions of the plan. If an employee moves 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.

The defined benefit pension plan reflects an unfunded liability totaling \$70.9 million at December 31, 2019. The pension benefits funding status 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 projected benefit obligation of the plan was \$299.3 million at December 31, 2019, \$253.9 million at December 31, 2018 and \$271.1 million at December 31, 2017. The fair value of the plan assets was \$228.4 million at December 31, 2019, \$192.0 million at December 31, 2018 and \$200.7 million at December 31, 2017. The amount of the pension benefits 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 its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was \$3.6 million in 2019, \$1.9 million in 2018 and \$3.6 million in 2017. The Association's allocated share of plan expenses included in salaries and employee benefits was \$48,164 in 2019, (\$22,625) in 2018 and \$44,700 in 2017. Participating employers contributed \$16.0 million in 2019, \$16.0 million in 2018 and \$16.0 million in 2017 to the plan. The Association's allocated share of these pension contributions was \$215,040 in 2019, \$0 in 2018 and \$196,160 in 2017. 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 employer contributions expected to be paid into the pension plan during 2020 is 23.0 million. The Association's allocated share of these pension contributions is expected to be \$0. 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 anticipated.

Postretirement benefits other than pensions are also provided through the Farm Credit Foundations Retiree Medical and Retiree Life Plans to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale, based on years of service. The anticipated costs of these benefits are accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits and life insurance) included in salaries and employee benefits were \$3,052 for 2019, \$2,022 for 2018 and \$12,383 for 2017. These expenses are equal to the Association's cash contributions for each year.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan (Contribution Plan). The Contribution Plan has two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Contribution Plan and Salary Deferral Plan were \$190,300 for 2019, \$174,387 for 2018 and \$168,385 for 2017.

NOTE 12 – RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are 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 unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets

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Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment. Loan information to related parties for the years ended December 31 is shown below.

	2019	2018	2017
Beginning Balance	\$ 16,834,124	\$ 17,516,240	\$ 18,678,566
Advances	13,200,709	9,992,594	9,317,307
Repayments	(12,824,496)	(10,674,710)	(10,479,633)
Ending Balance	\$ 17,210,337	\$ 16,834,124	\$ 17,516,240
Participations Sold	(5,620,588)	(5,844,313)	(4,579,529)
Net Ending Balance	\$ 11,589,749	\$ 10,989,811	\$ 12,936,711

In the opinion of management, none of these loans outstanding to officers and directors at December 31, 2019, involved more than a normal risk of collectability.

The Association also has business relationships with other System entities for insurance, technology and benefit services. The Association paid \$9,720 in 2019, \$9,720 in 2018 and \$9,720 in 2017 to AgVantis for technology services. The Association paid \$66,412 in 2019, \$62,804 in 2018 and \$60,676 in 2017 to Farm Credit Foundations for human resource services.

NOTE 13 – REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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 contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, commitments to extend credit outstanding were \$65.6 million in 2019, \$60.2 million in 2018 and \$57.1 million in 2017.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Statements of Financial Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

The Association maintains an unsecured line of credit with its depository bank for \$500,000 as part of its depository relationship and as a secondary source of local funds. This line of credit was not used in 2019, 2018 or 2017.

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NOTE 15 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31 follow (dollars in thousands).

2019	First	Second	Third	Fourth	Total
Net Interest Income	\$ 1,978	\$ 2,024	\$ 2,139	\$ 2,047	\$ 8,188
(Provision for) or Reversal of losses	(11)	(114)	(252)	(13)	(390)
Noninterest expense, net	(739)	(721)	(711)	(772)	(2,943)
Net income/(loss)	\$ 1,228	\$ 1,189	\$ 1,176	\$ 1,262	\$ 4,855

2018	First	Second	Third	Fourth	Total
Net Interest Income	\$ 1,726	\$ 1,872	\$ 1,995	\$ 2,058	\$ 7,651
(Provision for) or Reversal of losses	60	(54)	(71)	51	(14)
Noninterest expense, net	(487)	(595)	(562)	(730)	(2,374)
Net income/(loss)	\$ 1,299	\$ 1,223	\$ 1,362	\$ 1,379	\$ 5,263

2017	First	Second	Third	Fourth	Total
Net Interest Income	\$ 1,680	\$ 1,729	\$ 1,863	\$ 1,848	\$ 7,120
(Provision for) or Reversal of losses	0	(64)	14	(2)	(52)
Noninterest expense, net	(656)	(672)	(710)	(730)	(2,768)
Net income/(loss)	\$ 1,024	\$ 993	\$ 1,167	\$ 1,116	\$ 4,300

NOTE 16 – PATRONAGE PROGRAM

Under Section 840 of the Association bylaws, the Board has adopted an obligating resolution to pay patronage to patrons with voting stock or nonvoting participation certificates with eligible patronage business on the basis of average daily principal or contractual balance of each Patronage Transaction (account) during the period for which the distribution is calculated. The distribution shall not exceed the net income that was earned on the Patronage Transaction, or if the Patronage Transaction is participated, shall not exceed the net income that would have been earned if the Patronage Transaction was not participated.

Patronage is solely based on current year eligibility, and in no event will any patron whose account in a prior year was ineligible receive any patronage amount for a prior period once the account returns to eligible patronage status. "Patronage Business" encompasses the following transactions (each a "Patronage Transaction"): (i) loan accounts originated by the Association with an outstanding principal balance during the year and (ii) loan account participations acquired by the Association under a participation contract that specifically provides for the payment of patronage. Net earnings from transactions that are not Patronage Business shall constitute non-patronage earnings and shall not be available for distribution. Patronage Business shall not include accounts specified in advance as not eligible for patronage due to special pricing and/or risk factors and for which the borrower has waived patronage, sales contracts, fee-based services, related services and insurance sales, and secondary market activities.

Patronage distributions may be in the form of cash, qualified written notices of allocation and/or nonqualified written notices of allocation. Patronage paid in cash will not include any amount which the Board has determined is required to be retained in accordance with meeting capital adequacy requirements necessary for sound financial management and future planning, and any retained earnings may be either allocated or unallocated to patrons.

NOTE 17 – SUBSEQUENT EVENTS

The Audit Committee approved the report on February 19, 2020 subject to management's review of subsequent events through the report release date. Association management has evaluated subsequent events through February 19, 2020, which is the date the financial statements were available to be issued, and no material subsequent events were identified.

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Description of Business

The Association's territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered and related Farm Credit organizations are described in Note 1, Organization and Operations. The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics and concentrations of assets, if any, are described in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Unincorporated Business Entities

The Association did not have any Unincorporated Business Entities for the years shown in the consolidated financial statements.

Description of Property

The Association has the following properties:

<u>Description</u>	<u>Location</u>	<u>Ownership</u>
Blackfoot Branch and Headquarters	188 W Judicial, Blackfoot, ID 83221	Owned
American Falls Branch	2883 Hwy 39, American Falls, ID 83211	Owned
Rexburg Branch	1586 N 2 E, Rexburg, ID 83440	Owned
Twin Falls Loan Office	1096 Eastland Drive N, Suite 100A, Twin Falls, ID 83301	Owned

Enforcement Actions and Legal Proceedings

The status of any regulatory enforcement actions are described in Note 13, Regulatory Enforcement Matters, and the status of legal actions pending against the Association are described in Note 14, Commitments and Contingencies.

Description of Capital Structure

The Association's capital structure is described in Note 8, Shareholders' Equity.

Description of Liabilities

The Association's liabilities are described in Note 7, Notes Payable to CoBank and Note 14, Commitments and Contingencies.

Selected Financial Data

Selected financial data for the five years ended December 31, 2019 is described in the Five-Year Summary of Selected Consolidated Financial Data.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Management's Discussion and Analysis of Financial Condition and Results of Operations section provides required disclosures about the Association's consolidated financial condition and operations.

Governance

Board of Directors

We are governed by a seven member board that provides direction and oversees our management. Of these directors, five are elected by the shareholders and two are appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serve as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

Directors who are borrowers have a vested interest in ensuring our Association remains strong and successful. However, our borrowing relationship could be viewed as having the potential to compromise the independence of a director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of our Board. Annually, in conjunction with our independence analysis and reporting on our loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of all members of the Board. During 2019, nine meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- the oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;

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- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the consolidated financial statements;
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls or auditing matters; and
- oversight of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing services.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of all members of the Board. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs and applicable compensation disclosures.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- oversight of management's review of the internal controls over financial reporting;
- officer certification of accuracy and completeness of the consolidated financial statements; and
- information disclosure through our website.

Directors and Senior Officers

The following represents certain information regarding the directors and senior officers of the reporting entity.

Senior and Other Officers

Marc Fannesbeck, President and Chief Executive Officer since June 16, 2015 and also Chief Credit Officer until January 1, 2017. Previously served as Senior Vice President and Chief Credit Officer since January 1, 2012, Vice President and Branch Manager since June 1, 2006, Assistant Vice President and Branch Manager since April 1998, and prior to that as Branch Manager. He has been employed by the Association since January 1994.

Jim Chase, Secretary and Chief Financial Officer since May 16, 2006. Previously served as Assistant Vice President and Data Systems Administrator since January 2005, and prior to that as Assistant Vice President and Assistant Branch Manager. He has been employed by the Association since January 1991.

Adam C. Jensen, Vice President and Chief Credit Officer since January 1, 2017. Previously served as Vice President since January 1, 2015 and Assistant Vice President and Branch Manager since March 15, 2007. He has been employed by the Association since March 2007.

Kirk Powell, Assistant Vice President and Branch Manager since March 1, 2012. He has been employed by the Association since October 1998 and was previously employed by the Association from 1990 to 1992.

Katie Wallace, Assistant Vice President and Branch Manager since January 1, 2019. Previously served as Branch Manager since December 1, 2014, Assistant Branch Manager since January 1, 2014, as Loan Officer since June 1, 2007 and as Operations Assistant since March 16, 2006. She has been employed by the Association since March 2006.

Dana Wood, Assistant Vice President and Branch Manager since January 1, 2019. Previously served as Branch Manager since January 1, 2015, Loan Officer since July 14, 2008. He has been employed by the Association since July 2008.

Ryan Funk, Chief Information Officer since July 1, 2016. Previously served as IT Administrator and Programmer since June 2003. He has been employed by the Association since June 2003.

Board of Directors

Ken Black, Chairman, Burley, Idaho. Elected term expires in 2022. Engaged in ranching and cattle feeding. He has been an Association member since 1993 and served as a board member since March 2013. He previously served as a board member from 1999 to 2011. Business interests in which he serves on the board of directors or as a senior officer include: Black Livestock LLC, (Manager and member) a farming and ranching entity; West Cassia Soil Conservation District Committee (director).

Twain S. Hayden, Vice Chairman, Arbon, Idaho. Also serves as Chairman of the Compensation Committee. Elected term

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expires in 2022. Engaged in farming. He has been an Association member since 1982 and a board member since March 3, 2004. Business interests in which he serves on the board of directors or as a senior officer include: a partner in Mid Crystal Farms, a Partnership whose principal business is farming.

Scott R. Giltner, Jerome, Idaho. Appointed term expires in 2021. Engaged in dairy farming and trucking. He has been an Association member since 1996 and a board member since November 14, 2007. Business interests in which he serves on the board of directors or as a senior officer include: Giltner Trucking, LLC, (Secretary, Treasurer and member) a short haul trucking company; Giltner Milk Transportation, LLC (President and member) a long haul trucking company; GMT Logistics, LLC, (President and member) a truck brokerage company; C7 Farms, LLC, (member) dairy and farming; Pittock & Sons Dairy, LLC, (member) dairy and farming; CJATZ Leasing, LLC, (President and member) a truck leasing company; Idaho Quarter Horse Association (director); Idaho Quarter Horse Association Racing Division (director); and American Quarter Horse Association (Idaho Representative).

Wendy Pratt, Blackfoot, Idaho. Also serves as Vice Chairman of the Audit Committee. Elected term expires in 2020. Engaged in farming and ranching. Has been an Association member since 1999 and a board member since March 15, 2017. She serves as Secretary/Treasurer of the Eastern Idaho Grazing Association.

Bruce Ricks, Sugar City, Idaho. Elected term expires in 2021. Engaged in farming. He has been an Association member since 1982 and a board member since March 4, 2015. Business interests in which he services on the board of directors or as a senior officer include: BR Ricks Farms, Inc.; Teton Island Canal Board (member) and North Fork Protection Association (member).

Dennis W. Snarr, Idaho Falls, Idaho. Also serves as Vice Chairman of the Compensation Committee. Elected term expires in 2020. Engaged in farming and ranching. He has been an Association member since 1980 and a board member since March 9, 2011. Business interests in which he serves on the board of directors or as a senior officer include: Dean Snarr & Son, LLC (Manager and member) a farm operating entity; Snarr Family Management, LLC, (Manager and member), a real estate holding company; and National Fresh Cooperative, Inc. (board member).

Mike Virtue, Blackfoot, Idaho. Also serves as Chairman of the Audit Committee and as the board's designated financial expert. Appointed term expires in 2021. Served as mayor of Blackfoot from 2006 until January 2014. He has been a board member since March 12, 2009. Previously held auditing and accounting positions with Idaho State University and Idaho National Laboratory contractors. Is a board member of Dawn Enterprises, a private non-profit organization that offers employment, housing and community support services to assist individuals of Southeastern Idaho with mental, physical, or social disabilities. Board member of the Blackfoot School District Finance Committee.

Director Compensation

Association board members were paid \$400 per day during 2017 and in 2018 through February, and thereafter \$450 per day for board meetings and certain official acts and were paid between \$100 and \$200 per day for certain meetings, activities and phone calls as compensation for services rendered, which totaled \$39,800 in 2019. In addition to cash compensation, directors are reimbursed for direct travel and training expenses incurred. Aggregated reimbursements to directors for travel, subsistence and other related expenses were \$16,983 in 2019, \$11,502 in 2018 and \$5,231 in 2017. De minimis amounts or gifts to directors, if any, are not included in compensation. A copy of the expense reimbursement policy is available to shareholders upon written request. Honoraria for each director in 2019 is as follows:

Idaho AgCredit Board Member	Days Served at Board Meetings	Days Served at Other Official Acts	Days served at Other Acts	Total Honoraria
Ken Black, Chairman	11	0	11	\$ 7,150
Twain S. Hayden, Vice Chairman	11	0	2	\$ 5,350
Scott Giltner	11	0	0	\$ 4,950
Wendy Pratt	11	0	3	\$ 5,550
Bruce Ricks	10	0	3	\$ 5,100
Dennis W. Snarr	11	0	3	\$ 5,550
Mike Virtue	11	0	6	\$ 6,150
Total	76	0	28	\$ 39,800

Transactions with Senior Officers and Directors and/or their Immediate Families

There were no transactions other than loans to directors or their immediate families and no transactions with senior officers other than employment. The reporting entity's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from the consolidated financial statements, Note 12, Related Party Transactions.

Senior Officer Compensation

The Compensation Committee of the board of directors follows a comprehensive compensation philosophy where the objectives of the Compensation Plans (Plans) are to:

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- Provide market based compensation through base salary, and annual and long-term incentive components that will allow the Association to attract, motivate and retain superior executive talent;
- Place a portion of total compensation for the executive at risk and contingent upon the Association remaining sound financially and meeting established performance goals; and
- Ensure that long-term financial stability of the Association is emphasized over short-term results and decisions.

The Plans were designed to:

- Reward successful business year results through an Annual Incentive Plan;
- Foster long-term financial stability through competitive benefits and incentives; and
- Significantly contribute to the retention of the CEO and other Senior Officers.

The Compensation Committee annually reviews market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other Senior Officers. The CEO participated in an Executive Incentive Plan, which included an Annual Incentive Plan component. The Compensation Committee considers an Executive Incentive Plan on an annual basis. Due to the cooperative business structure of the Association, the Plans do not contain stock-based compensation components.

Compensation earned by our President and CEO and aggregate compensation with other senior officers and highly compensated employees for the years ended December 31, 2019 is disclosed in the accompanying table. Our current Board policy regarding reimbursements for travel, subsistence and other related expenses states that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses that are necessary and that support our business interests. A copy of our policy is available to shareholders upon request.

Summary Compensation Table 1 (dollars in thousands)

No. in Group 2	Year	Salary 3	Annual Incentive Compensation 3	Long-Term Incentive Compensation 3	Change in Pension Value 4	Deferred/ Perquisites 5	Other 6	Total
President and CEO Marc Fannesbeck								
1	2019	\$ 164	\$ 23	\$ 0	\$ 0	\$ 8	\$ 19	\$ 214
1	2018	158	23	0	0	6	18	205
1	2017	152	16	0	0	7	18	193
5 Aggregate senior officers and highly compensated employees (including CEO)								
5	2019	\$ 641	\$ 92	\$ 0	\$ 0	\$ 25	\$ 70	\$ 828
5	2018	615	79	0	0	24	64	745
5	2017	588	65	0	0	27	65	716

1. Disclosure of the total compensation paid during 2019 to any designated senior officer or highly compensated employee is available to our shareholders upon request. Compensation amounts do not include earnings on nonqualified deferred compensation, as such earnings are not considered above-market or preferential.

2. The senior officers and highly compensated employees included above are those officers defined by FCA regulations Section 619.9310 and Section 620.6. The Association has three senior officers including the President.

3. Salary represents the base salary amounts including any base salary increases during the year. Annual incentive compensation amounts represent amounts earned in the reported fiscal year, some of which are paid during the current fiscal year and some of which are paid in February of the subsequent year. The Association did not have a Long-Term Incentive for any of the years shown. All salary and incentive amounts include all amounts earned during the year, regardless of whether a portion of such compensation was paid in the following year or was deferred pursuant to the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan).

In addition to base salary, substantially all employees and executives could earn additional compensation under the Association's incentive plans, which are plans tied to the overall business performance and to the employee's performance. The incentive plans were based on the fiscal year and were designed to motivate employees and executives to exceed annual performance targets established by the Board of Directors. Performance targets were established for the following factors: Earnings, Operating Efficiency, Asset Quality, and Service Quality. In addition, the plans included provisions for the Board to evaluate the Association's performance in other important but subjective areas of operations through a discretionary rating component.

4. There were no active participants in the Pension Plan at the end of 2019, 2018 or 2017.

5. The Deferred/Perquisites Compensation amounts are primarily composed of certain travel benefits, wellness benefits, company contributions to benefit plans, taxable group term life insurance premiums, and long-term disability premiums.

6. Other amounts include the Association's base and matching contributions to the 401(k) Plan.

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Some amounts have been rounded up or down so that the total amounts are accurate.

Pension Benefits, Pension Plan Overview and Valuation

There were no active employees in the 11th Farm Credit District Employee's Retirement Plan (Pension Plan) in 2019, 2018 or 2017. The plan for former employees is described in Note 11, Employee Benefit Plans.

401(k) Plan

Substantially all employees participate in the 401(k) Plan. The Association's 401(k) Plan is a defined contribution plan available to all employees on the same basis by eligible retirement plan, as described in Note 11, Employee Benefit Plans. Employees eligible under the defined contribution plan received defined contributions up to 9% with a 6% or more employee contribution. Employees vest in Association contributions at a rate of 25% per year until 100% vested for current and future Association contributions. Employees are always 100% vested in their own contributions.

Incentive Compensation Programs

The general employee incentive plan included all employees hired before April 1, 2019 (except as described below) and still employed as of the end of 2019 except for the CEO. The first part of this plan included a 5% of salary incentive for making the ROA goal of 1.40%, maintaining a Contractual Interbank Performance Agreement (CIPA) score high enough to avoid cost of funds penalties, and maintaining credit quality of at least 90% Acceptable and OAEM. Employees hired after April 1, 2019 were eligible for this first incentive on a pro-rata basis. Additionally, this plan provided for an incentive pool which is paid out 25% equally among all employees and 75% pro-rata based on salary paid during the year. That incentive pool included a percentage for an overall increase in average volume, all new mortgage loans and all new commercial loans to borrowers who had not borrowed during the preceding plan year. Payout of this additional incentive also had to meet the same plan requirements as the 5% incentive payout. The maximum combined incentive under these plans is capped at 15%. The Board determined in its October 2019 meeting that the Association would meet the plan requirements and approved payout of 5% to eligible employees prior to 2019 year end. The Board determined in its January 2020 meeting that the Association met the plan requirements and the payout of additional incentive amounts earned (included in 2019 expenses) will be in 2020.

The loan officer incentive plan included all loan officers and specifically excluded the CEO, CCO, CFO and other employees. Incentives included a percentage earned for average new commercial volume and new mortgage note volume up to a maximum per customer. The plan included reduction of future incentives under the plan for any loans which do not maintain adequate credit quality. The plan provides for controlled quality growth and has dollar limits per customer, but total incentives possible are not capped. Payouts under the loan officer incentive plan were made prior to 2019 year end.

The CEO incentive plan included a 5% of salary payout for making the same plan requirements as required in the general employee incentive plan. The CEO incentive plan also included additional incentives for meeting volume and credit quality goals. The maximum combined incentive under these plans is capped at 15%. The 5% incentive was paid out at the same time as the general employee incentive plan 5% incentive. The Board determined in its January 2020 meeting that the CEO met the plan requirements and goals and the payout of this additional incentive (included in 2019 expenses) will be in 2020.

Payments under all incentive plans are made only if plan requirements are met, and payment of the incentive would not cause the Association earnings to fall short of the earnings goal. If the Board can determine, prior to year end, that plan requirements will be met, it can approve a partial payout of the incentive, with the remaining amount payable after year end figures can be affirmed. Some of these incentives may require FCA approval if capital ratios fall below certain regulatory requirements as described in Note 8, Shareholders' Equity.

Employee or Director Involvement in Certain Legal Proceedings

There were no matters required to be disclosed in this section which came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of Wipfli LLP and the Report of Management are incorporated herein by reference.

Relationship with Independent Public Accountants

There has been no change in the firm contracted as independent public accountants and there have been no material disagreements on any matters of accounting principle or financial statement disclosures during the period.

Whistleblower Notices

Idaho AgCredit has established a whistleblower program to encourage reporting by any employee, customer or member of the public about any improper accounting or other activity to the Association's Audit Committee. Details about the whistleblower program and contact information for making whistleblower complaints are listed on the Association website at www.idahoagcredit.com.

Borrower Privacy

The Association holds the financial and other personal information of its customers in strict confidence. Since 1972, Farm

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Credit Administration regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without the borrower's consent. We do not sell or trade our customers' personal information to marketing companies or information brokers.

FCA rules allow us to disclose customer information to others only in these situations:

- We may give it to another Farm Credit institution with whom our customer does business.
- We can be a credit reference for our customers with other lenders and provide information to a credit bureau or other consumer reporting agency.
- We can provide information in certain types of legal or law enforcement proceedings.
- We may provide information to auditors for the purpose of confirming loan balances and terms.
- FCA and other third-party examiners may review loan files during regular examinations of our association.
- If one of our employees applies to become a licensed real estate appraiser, we may give copies of real estate appraisal reports to the state agency that licenses appraisers when required. We will first remove as much personal information from the appraisal report as possible.

CoBank, ACB Financial Data

The shareholders' investment in the Association is materially affected by the financial condition and the results of operation of the CoBank. The CoBank quarterly and annual reports are available on CoBank's web site, www.cobank.com, or may be obtained at no charge by contacting Idaho AgCredit, 188 W Judicial, PO Box 985, Blackfoot, Idaho 83221 or calling (208)785-1510.

Association Financial Data

The Association's quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. Shareholders are mailed a copy of the annual report within 90 days after year end. The reports may be obtained free of charge on the Association's website, www.IdahoAgCredit.com, or upon request. We are located at 188 W Judicial, PO Box 985, Blackfoot, ID 83221 or may be contacted by calling (208)785-1510.