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2021 Northwest FCS



2021 Annual Report

ANNUAL REPORT

Here to Help You Grow®

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CHAIR Message

I'm extremely proud of our Northwest FCS customers. Despite continuing challenges of the pandemic, and extreme drought and fire conditions across the Northwest, our customers continue to be great stewards of their businesses and sound risk managers. It's encouraging to see sustained sound credit quality in our loan portfolio as we support the Northwest agriculture, forestry, and fisheries industries.

By all measures, 2021 was a strong year for the association. Based on our financial performance, the board voted to provide cash patronage dividends at 1.25% of our customers' eligible average daily loan balances. For 2021, total patronage was \$165.2 million. Our board is committed to provide our customer-members with a reliable and consistent level of patronage which is an important benefit of being a cooperative member. Since 2000, Northwest FCS has paid more than \$1.4 billion in cash patronage which has provided a significant economic boost to the rural communities we serve.

In addition to patronage, we increased our stewardship investment throughout the Northwest. In 2021, the board designated an additional \$4 million in investments to universities and colleges to support the vital role higher education plays in industry research and developing our future producers and employees. The board also designated \$4 million for our Local Advisory Committee members to guide stewardship investments towards local non-profit organizations in 2022. Our LAC members have been instrumental in supporting our Rural Community Grant program by identifying worthy causes and writing letters of support. We believe they understand better than anyone the unique needs in our local communities. We thank our

LAC members for helping us better understand our communities' needs, changing economic conditions and customer sentiments across our diverse association.

As our board looks toward the future, we are keenly aware of our responsibility to assure our association remains financially strong with adequate capacity and services to support future generations of business owners. Following considerable analysis and discussion, our board unanimously agreed to sign a letter of intent to merge with Farm Credit West, which serves producers, agribusinesses and related industries in California, Arizona and parts of Nevada. We are both successful, financially strong Farm Credit associations who have partnered together for many years to jointly finance customers, serve rural markets, and collaborate in operational areas.

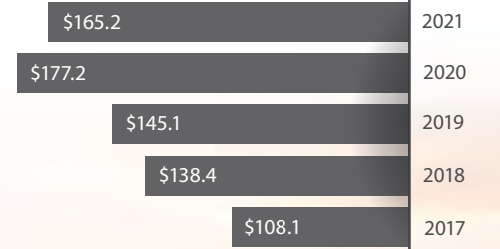
We are currently assessing the benefits of a merger for stockholders and are finalizing merger agreement terms. Following review by our regulator, the Farm Credit Administration, the merger proposal will be submitted to customer-stockholders of both associations for their consideration and vote of approval in the fall.

On behalf of the board, I want to thank Northwest FCS employees and management for continually finding ways to serve our customers effectively, despite changing conditions. We sincerely appreciate the customer-members who support this cooperative and contribute to our exceptional results. We look forward to continuing to support your businesses.



Nate Riggers
Board Chair

Cash Patronage Paid (\$ in millions)





Phil DiPofi
President and CEO

CEO Insights

Being a dependable lender through economic uncertainties is a vital part of our cooperative mission. 2021 was challenging, yet profitable for most customers as we continued to meet your increasing needs for capital and risk management tools to help grow and support your businesses.

The strong performance of our association in 2021 reflects positive economic conditions for agriculture and your ability to manage through volatility in supply chain issues, rising input costs and drought conditions across much of the Northwest. As we've seen time and again, in the midst of volatility, you continue to work through challenges and seek opportunities to best position your businesses for success.

Looking to the future, we continue to strengthen Northwest FCS' capacity in each of the core four areas of our business: relationships with customer-members; growth and retention of highly talented employees; operational enhancements and strong financial performance.

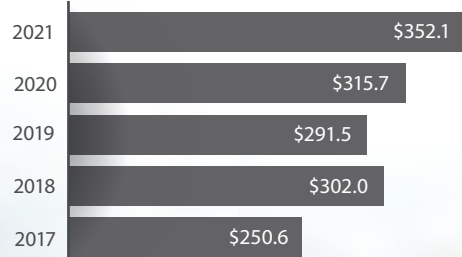
Customer Capacity

Each positive customer experience leads to more opportunities to build relationships and trust. That's why we continue to focus on being accessible and responsive, helpful, and clear in our communications and making it easier for you to do business with us. Our primary method for measuring customer engagement is research conducted and analyzed by the Gallup organization. With these insights we continue to learn and improve in our ability to deliver consistent, positive experiences for our customer-members.

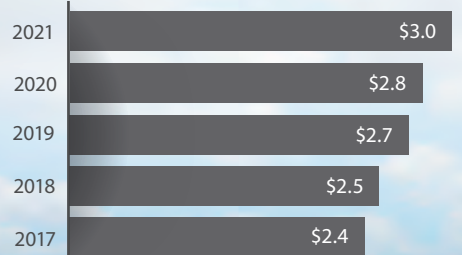
Farm Credit's mission is to serve the entire spectrum of agriculture, forestry, and fisheries. In 2021 we continued to demonstrate a strong commitment to young, beginning, and small-farm producers. Some are just getting started, others are exploring new markets and finding innovative ways to be successful. As we engage in our mission to help people start and grow their businesses, we're learning more about producers from various backgrounds and the challenges they face. I'm proud of the opportunities and mentoring we provide through our AgVision program. In 2021, AgVision loan volume increased more than 9% and the number of AgVision customers increased more than 8%.

The low interest rate environment in 2021, combined with dynamic market conditions, fueled strong loan demand from new and existing customers. The number of new and renewed loans increased more than 9% compared to 2020. Crop insurance activity was robust also, with policies written covering more than 3.4 million acres across the Northwest with total grower coverage of more than \$3.3 billion. Our insurance teams worked hard to support our customers through a very heavy claim year driven by severe drought, damaging heat, and fires.

Earnings (\$ in millions)



Capital (\$ in billions)



Human Resource Capacity

During a year of continued impacts from the pandemic, our employees demonstrated their resiliency, adaptability, and commitment to serving our customers. With health and safety a top priority, our teams evolved from many working remotely at the beginning of the year, to all employees returning to our offices by mid-2021. Our employee engagement remains strong as we continue to focus on well-being, while ensuring we remain a high performing, mission-based business.

Throughout 2021, we evaluated workplace flexibility trends in the marketplace and how to continue to attract and retain high-performing employees. After thoughtful consideration, we've adopted a 'bank of days' approach that now provides up to six weeks of remote workday options for employees to use throughout 2022 as we continue to evaluate a long-term strategy for workplace design.

Northwest FCS continues to grow as a learning organization, exploring innovative ways to deliver learning that is accessible to all employees, easy to consume and impactful to their roles. Significant advances in employee education were made in leadership learning, tenured credit professionals learning and ongoing innovations to make learning easier and more impactful for our teams.

Operational Capacity

Across the organization we continue to focus on ways to make it easier for you to do business with us. Replacing our legacy online banking platform has been a high priority. During the pandemic, customers who hadn't used our digital banking tools before adapted well in using them to complete transactions and check on their account status. We used their feedback to launch our new online banking system and mobile app in 2021.

The new system received positive reviews and our support resources have been highly responsive. Customers say they appreciate the ability to set up different bank accounts and opt-in/out of online statements. We are adopting additional system capabilities to make it even easier to use.

Financial Capacity

Overall, the association performed exceptionally well in 2021. Your cooperative finished the year with net income of \$352.1 million compared to \$315.7 million in

2020. Increased earnings were primarily the result of continued loan growth, a credit loss reversal in 2021 compared to provision for credit losses in 2020, and an additional patronage distribution from CoBank. Capital increased from \$2.8 billion in 2020 to \$3.0 billion, which continues to allow us to be a source of strength for customer-members facing adversity. Most of our financial and credit metrics finished better than planned and we continued to maintain our operating expense and margin disciplines.

Based on Northwest FCS' positive financial results, the Northwest FCS Board of Directors approved a cash patronage dividend of 1.25% of a customer-member's eligible average daily loan balance during the year. In total, cash patronage paid for 2021 was \$165.2 million. We believe this excess capital is best used by our customer-members to reinvest in their businesses and to invest in our local communities and the industries we serve.

Looking ahead

Consumer prices and other inflationary metrics have spiked recently due to disruptions in global supply chains amid the pandemic, turmoil in labor markets, low interest rates and strong consumer demand. Many contend higher inflation is transitory and will subside in the near term. Others believe higher inflation will persist. While it is unclear which economic scenario is more likely, we know current consumer price spikes are negatively affecting our employees and customers. We will continue to monitor these dynamics and adapt accordingly.

Our purpose as a cooperative is to improve the lives of our customers and employees, the communities where we work and raise our families and the Northwest food and fiber industries that perform a vital role in the U.S. and around the world. With strong earnings, capital, and liquidity, I'm confident we will manage well through the economic challenges and business opportunities we see in 2022.

Thank you for your continued support of our cooperative.

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IDAHO

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 Lynden
 Yakima
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 Deer Park
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 Enumclaw
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 Centralia
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 Palouse
 Pasco
 Elma
 Cotton
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 East Wenatchee
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As of 1.27.2022

(BEGIN) 2021 Annual Report to Stockholders

(END) 2021 Annual Report to Stockholders



PURPOSE Driven

To improve the lives of customers and employees, the communities where we work and raise our families, and the Northwest agriculture, food and fiber industries that perform a vital role in the United States and around the world.