



ANNUAL
REPORT

2021



FARM CREDIT
OF NORTHWEST FLORIDA

FARM CREDIT OF NORTHWEST FLORIDA, ACA

2021 ANNUAL REPORT

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Management

John R. Gregory	President & Chief Executive Officer
John P. Mottice	Chief Financial Officer
Chuck Thiele	Chief Credit Officer
DeAndrea Barber	Chief Operations Officer
Dorislenn White-Padgett	Director of Human Resources
Michael Digmon	Chief Lending Officer

Board of Directors

Cindy S. Eade.....	Chairperson
Mark Fletcher.....	Vice Chairman
Damon Boutwell	Director
James R. Dean.....	Director
Ernest C. Fulford.....	Director
Jacob Gilmore	Director
Glen Strange.....	Director
Richard Terry	Director
Michael Thompson	Director
R. Douglas Walker.....	Director
David Yoder	Director

Message from the President

Dear Shareholders,

On behalf of the Board of Directors, management and staff of Farm Credit of Northwest Florida, ACA, I am pleased to present our 2021 Annual Report. Your member-owned Association is unique. It resides at the place where agriculture and finance meet. The Association's core function, raising capital to invest in support of our members' financial and personal goals and in support of the Farm Credit Mission, is incredibly important. The past three years, moreover, show us how essential a locally owned and managed source of reliable financing is to our communities, members and staff.

2021 was another year of loan growth for the Association and the first time the Association posted consecutive years of growth since 2007. The Board of Directors and management are grateful to our members for trusting the Association with their financing needs and to our staff who did the work to make this growth possible. As an example of this growth, the Association made 35% more loans in 2021 compared to just two years earlier, with a 30% increase in new members. A defining characteristic of your Association is its cooperative structure – that it is a locally member-owned cooperative is a cornerstone of the Farm Credit mission. Part of being a member-owned cooperative is that the Association returns its profits to its members in the form of patronage. The strong performance of the Association combined with continued strong performance by AgFirst Farm Credit Bank allowed the Board of Directors to declare a record \$6.7 million cash distribution to members from 2021 earnings.*

An important responsibility of the Board and management is balancing the distribution of patronage versus the long-term needs of the Association to support its mission of being a reliable partner for agriculture and capitalizing future growth. Your Association is well capitalized (see, for example, our permanent capital ratio of 26.02% versus the AgFirst District average of 20.60% and Farm Credit System average of 16.9%). This level of capital allows the Board to both fulfill its responsibility and make this record distribution. The Association will make the cash distribution in April in two parts – \$3.75 million representing our normal earnings ability and a second \$2.95 million “bonus” distribution due to exceptional performance of the Association and AgFirst.

Just like our members and Americans throughout our nation, the Association is confronting a higher cost of doing business in terms of expenses, employee benefits and overall costs. Efficiency is the focus, yet we cannot sacrifice client experience or supporting Farm Credit's mission on the altar of cost control. In 2022 and 2023, the Association will deploy the following projects to eliminate operational friction, improve your member experience and better serve our mission of supplying reliable credit to Northwest Florida:

- Centralizing document processing to allow our lending teams to be more active in our communities and on your farms, while continuing to provide timely and accurate loan closings.
- Upgrading technology across the Association to better serve our members. Our funding bank, AgFirst Farm Credit Bank, is engaged in a large and extensive project to upgrade the technology for the district as a whole. This once-in-a-generation effort will replace 40 year old systems with best-in-class technology. Over the next three years, this project will touch all parts the Association (e.g., lending, accounting, marketing, human resources, etc.) – for you as members, this will allow the Association to provide quicker responses, better customer service, more flexible terms and more convenient access for you to your account information. As we are your cooperative, AgFirst is also a cooperative with associations, like the Association, as its members. As such, when it is engaged in a project of this magnitude, the Association is an integral part of the project in terms of staffing and expenditure. Though this will be a considerable investment, we think it is critical to both our Association and the Farm Credit System as a whole that we keep our lending infrastructure modern and effective.

- Implementing a new Lifestyle Lending program to meet the changing needs of our rural communities. COVID-19 changed all of our lives. One change we have noticed is the increase of individuals who want to live in Florida, particularly in the panhandle. Although these clients want much of what Northwest Florida has to offer in terms of quality of life, outdoor recreation and involvement in agriculture, they also want access to the Association's financing capacity "on their terms" and "on-demand" and not necessarily in person. In 2022, we will roll out our Lifestyle Lending program to fit the needs of these new clients. Importantly, the Association will use the infrastructure built for this program to give more flexibility to its core farming and ranching clients in terms of faster decisions and more flexibility in how you want us to serve you.

In closing, the Board of Directors, management and staff would all like to congratulate and thank our recently retired CEO, Rick Bitner, for his 14 years of service to the Association. We all wish Rick a long, healthy and happy retirement. As one who worked with Rick at the Association during the 2008 global financial crisis, I am personally proud of the work he did for the Association and appreciative of the chance to have worked for him.

I know I am new to this role. I am incredibly proud and excited by this opportunity and look forward to meeting and working with you all in the years to come. In the meantime, however, if you need something from me, please contact me at jgregory@farmcredit-fl.com or call 850-209-2649. Thank you for trusting Farm Credit of Northwest Florida as your financial partner.

Sincerely,

/s/ John R. Gregory
Chief Executive Officer

March 10, 2022

*The cash patronage distribution of \$6.7 million exceeds the estimated distribution of \$6.4 million reported elsewhere in this Annual Report due to actual patronage-sourced earnings in excess of estimated patronage-sourced earnings for 2021.

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this Annual Report have been prepared by management of Farm Credit of Northwest Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent auditors, whose report appears elsewhere in this Annual Report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2021 Annual Report of Farm Credit of Northwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ Cindy S. Eade
Chairperson of the Board

/s/ John R. Gregory
Chief Executive Officer

/s/ John P. Mottice
Chief Financial Officer

March 10, 2022

Report on Internal Control Over Financial Reporting

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2021. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2021, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2021.

/s/ John Gregory
Chief Executive Officer

/s/ John P. Mottice
Chief Financial Officer

March 10, 2022

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	2021	2020	December 31, 2019	2018	2017
Balance Sheet Data					
Loans	\$ 318,613	\$ 299,608	\$ 284,180	\$ 288,415	\$ 275,112
Allowance for loan losses	(4,968)	(4,912)	(4,529)	(4,529)	(4,602)
Net loans	313,645	294,696	279,651	283,886	270,510
Equity investments in other Farm Credit institutions	2,932	3,018	3,370	3,346	3,377
Other property owned	45	—	4	118	2,968
Other assets	10,392	9,037	8,364	8,790	8,122
Total assets	\$ 327,014	\$ 306,751	\$ 291,389	\$ 296,140	\$ 284,977
Notes payable to AgFirst Farm Credit Bank*	\$ 230,976	\$ 213,221	\$ 200,279	\$ 204,857	\$ 193,164
Accrued interest payable and other liabilities with maturities of less than one year	9,571	8,891	7,135	7,477	8,338
Total liabilities	240,547	222,112	207,414	212,334	201,502
Capital stock and participation certificates	1,393	1,274	1,132	1,050	951
Retained earnings					
Allocated	36,420	36,420	37,244	40,321	43,942
Unallocated	48,654	46,945	45,599	42,435	38,582
Total members' equity	86,467	84,639	83,975	83,806	83,475
Total liabilities and members' equity	\$ 327,014	\$ 306,751	\$ 291,389	\$ 296,140	\$ 284,977
Statement of Income Data					
Net interest income	\$ 9,257	\$ 8,876	\$ 8,851	\$ 8,829	\$ 8,514
Provision for (reversal of allowance for) loan losses	—	—	(207)	(142)	(318)
Noninterest income (expense), net	(1,179)	(1,680)	(2,644)	(2,118)	(791)
Net income	\$ 8,078	\$ 7,196	\$ 6,414	\$ 6,853	\$ 8,041
Key Financial Ratios					
Rate of return on average:					
Total assets	2.56%	2.49%	2.26%	2.37%	2.83%
Total members' equity	9.25%	8.34%	7.47%	8.00%	9.45%
Net interest income as a percentage of average earning assets	2.96%	3.11%	3.16%	3.13%	3.07%
Net (chargeoffs) recoveries to average loans	0.018%	0.134%	0.074%	0.025%	0.125%
Total members' equity to total assets	26.44%	27.59%	28.82%	28.30%	29.29%
Debt to members' equity (:1)	2.78	2.62	2.47	2.53	2.41
Allowance for loan losses to loans	1.56%	1.64%	1.59%	1.57%	1.67%
Permanent capital ratio	26.02%	27.56%	28.56%	27.41%	28.26%
Common equity tier 1 capital ratio	25.69%	27.22%	28.20%	27.07%	27.91%
Tier 1 capital ratio	25.69%	27.22%	28.20%	27.07%	27.91%
Total regulatory capital ratio	26.95%	28.47%	29.46%	28.32%	29.16%
Tier 1 leverage ratio	26.51%	28.38%	29.20%	27.95%	28.81%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	26.21%	28.21%	28.32%	25.90%	25.32%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 6,369	\$ 5,850	\$ 3,250	\$ 3,000	\$ 4,000

* General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2022.

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Northwest Florida, ACA, (Association) for the year ended December 31, 2021, with comparisons to the years ended December 31, 2020 and December 31, 2019. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Northwest Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or the Bank). The Association is materially affected and shareholder investment in the Association may be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly Reports are also available upon request free of charge on the Association's website, www.farmcredit-fl.com, or by calling 1-850-526-4910 or writing John Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, FL 32447.

The Association prepares an electronic version of the Annual Report, which is available on the website within 75 days after the end of the fiscal year, and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the website within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement 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," "will," or other variations of these terms are intended to identify the 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-related, 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 the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, government policies (including, among other things, tax, trade, immigration, crop insurance and periodic aid), interest rates and various other factors that affect supply and demand.

The following USDA analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of

the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

Agricultural production is a major use of land in the United States and the value of farm real estate accounted for 82 percent of the total value of the U.S. farm sector assets for 2021 according to the USDA in its February 4, 2022 forecast. Because real estate is such a significant component of the balance sheet of U.S. farms, the value of farm real estate is a critical measure of the farm sector's financial performance. Changes in farmland values also affect the financial well-being of agricultural producers because farm real estate serves as the principal source of collateral for farm loans.

The USDA's most recent forecast projects that farm sector equity, the difference between farm sector assets and debt, will rise 3.0 percent in 2021. Farm real estate value is expected to increase 2.0 percent and non-real estate farm assets are expected to increase 8.1 percent, while farm sector debt is forecast to increase 3.0 percent in 2021. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 66.4 percent of total farm debt in 2021.

The USDA is forecasting farm sector solvency ratios to remain relatively unchanged in 2021 at 16.1 percent for the debt-to-equity ratio and 13.9 percent for the debt-to-asset ratio, which represents the highest levels since 2002, but well below the peak of 28.5 percent and 22.2 percent in 1985. Working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors within 12 months) is forecasted to increase 13.5 percent in 2021 to \$96 billion from \$85 billion in 2020. Although working capital increased, it remains far below the peak of \$165 billion in 2012.

The USDA's most recent forecast estimates net farm income (income after expenses from production in the current year; a broader measure of profits) for 2021 at \$119.1 billion, a \$23.9 billion increase from 2020 and \$29.1 billion above the 10-year average. The forecasted increase in net farm income for 2021, compared with 2020, is primarily due to increases in crop receipts of \$37.8 billion to \$236.6 billion and animals and animal products of \$30.9 billion to \$195.9 billion, offset in part by a decrease of \$18.6 billion to \$27.1 billion in direct government payments and an increase in cash expenses of \$31.8 billion to \$358.3 billion.

The USDA's outlook projects net farm income for 2022 to decrease to \$113.7 billion, a \$5.4 billion or 4.5 percent decrease from 2021, but \$23.7 billion above the 10-year average. The forecasted decrease in net farm income for 2022 is primarily due to an expected increase in cash expenses of \$18.1 billion and a decrease in direct government payments of \$15.5 billion, partially offset by increases in cash receipts for animals and animal products of \$17.4 billion and crop receipts of \$12.0 billion. Cash expenses for feed and fertilizer-lime-soil conditioner purchases are expected to see the largest dollar increases. Direct government payments are forecasted to decrease due to lower supplemental and ad hoc disaster assistance related to the COVID-19 pandemic, as compared with 2021. The increase in crop receipts reflects increases in soybeans, corn, cotton and wheat receipts, while the increase in animals and animal products receipts reflects growth in milk, cattle/calves, and broilers receipts.

Expected agricultural commodity prices can influence production decisions of farmers and ranchers on planted/harvested acreage of crops or inventory of livestock and thus, affect the supply of agricultural commodities. Greater area of planted/harvested acreage and increased crop yields for some crops in recent years have contributed to increased supply, which exceeded demand. Also impacting yields are the growing conditions that are sensitive to weather conditions. Although not generally affected by weather, livestock and dairy prices are linked to crop prices as feed is a significant input cost to these producers.

Global economic conditions and weather volatility in key agricultural production regions can influence demand for food and agricultural products. Therefore, U.S. exports and imports shift to reflect changes in trade policies, world population and economic growth. Also impacting U.S. agricultural trade are global agricultural and commodity supplies and prices, changes in the value of the U.S. dollar and the government support for agriculture.

The USDA net farm income forecast for 2022 assumes a higher level of crop production to offset lower prices. However, livestock cash receipts are forecasted to increase due to higher prices for most commodities in the livestock and dairy segments.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2018 to December 31, 2021:

Commodity	12/31/21	12/31/20	12/31/19	12/31/18
Hogs	\$56.50	\$49.10	\$47.30	\$43.40
Milk	\$21.80	\$18.30	\$20.70	\$16.60
Broilers	\$0.74	\$0.44	\$0.45	\$0.51
Turkeys	\$0.85	\$0.72	\$0.62	\$0.50
Corn	\$5.47	\$3.97	\$3.71	\$3.54
Soybeans	\$12.50	\$10.60	\$8.70	\$8.56
Wheat	\$8.58	\$5.46	\$4.64	\$5.28
Beef Cattle	\$137.00	\$108.00	\$118.00	\$117.00

Geographic and commodity diversification across the Association coupled with existing government safety net programs, ad hoc support programs and additional government disaster aid payment for many borrowers helped to mitigate the impact in this period of challenging agricultural conditions. Although the outlook for agriculture has improved significantly since the second quarter of 2020, COVID-19 infection rates (including potential outbreaks in animal processing plants and new more virulent strains) along with weather (expanding severe or extreme drought), trade, rising input costs, labor issues, government policy and global agricultural product production levels may keep agricultural market volatility elevated for the next year. The Association's financial performance and credit quality are expected to remain sound overall due to its strong capital levels and favorable credit quality position at the end of 2021. Off-farm income support for many borrowers also helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements are reported in conformity with 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 management must 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 the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — 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 for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

Significant individual 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 encompasses various judgments, evaluations and appraisals with respect to the loans and underlying security that, by nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include

impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

Florida Economy

The University of Central Florida's Institute for Economic Forecasting projects annual Florida Real Gross State Product increased by 5.1 percent in 2021 after contracting by 2.8 percent in 2020 due to the impact of the COVID-19 public health shutdowns. Florida's Real GSP is expected to grow an average of 1.5 percent during 2022-2024 which is slightly faster than the average of forecasted real GDP growth for the U.S. economy over the same period. Florida payroll job growth continues to outpace national job growth. Year-over-year payroll growth is projected to average 2.5 percent in 2021, 4.3 percent in 2022, 2.1 percent in 2023, and 1.2 percent in 2024. Average job growth is expected to be 0.1 percent faster than the national economy over the same period. Labor force growth in Florida is projected to average 2.2 percent annually for 2021-2024. After a contraction of 2.1 percent in 2020, strong payroll job creation is expected to boost Florida's labor market recovery.

Additional key factors for the Florida economy include:

- Sectors expected to have the strongest average job growth during 2021-2024 are Leisure & Hospitality, Professional & Business Services, Information, Financial Services, and Education & Health Services.
- Housing starts will accelerate going forward, but not fast enough to offset the large shortage of single-family housing in the short run. Total housing starts are forecasted at 189,736 in 2021, 169,678 in 2022, 155,816 in 2023, and 149,360 in 2024. Housing price appreciation will decelerate as supply catches up with demand, interest rates increase, and affordability becomes further out of reach for many.
- Real personal income growth is expected to average 1.3 percent during 2021-2024. Florida's average real personal income growth is projected to be 0.4 percent lower than the national rate.
- Retail sales are forecasted to increase at an average pace of 3.6 percent during 2021-2024, after being hammered by the public health shutdowns and near collapse of the tourism industry in Florida.

The Florida housing market remains historically tight, fueling rapid price appreciation. The January 2022 single-family home report released by Florida Realtors® reflects price appreciation far surpassing the highs of the housing bubble. The median sales price for single-family homes increased by \$70,000 in January 2022, year over year, and now stands at \$375,000, an annual increase of 23.0 percent. Inventories of single-family represent just 1.0 months of supply, indicating an inventory balance that is skewed heavily in favor of sellers in the single-

family market. Distressed sales of single-family homes in the form of short sales continue to plummet year over year, down 44.8 percent, as have foreclosure/REO sales, down 35.9 percent.

The fundamentals of the housing market in Florida continue to be robust. Economic and job growth in Florida is forecasted to continue to outperform the U.S. labor market as more Baby Boomers reach the end of their working lives. This bodes well for continued population growth via the in-migration of retirees and job seekers to Florida.

Overall, the Florida economy is poised for solid growth over the next several years after weathering the storm of COVID-19 during 2020. In-migration trends continue to support economic growth, housing, and employment that exceed national averages. Agriculture in Florida has benefited from rising commodity prices in 2021, but is facing headwinds due to increasing input costs and declining direct government payments.

Regional Economy

The Northwest Florida/Panhandle area has a permanent population of 1.5 million and a workforce of over 600,000. The Association's eighteen county region includes over 25 percent of the state's counties and 20 percent of Florida's land mass. The area economy is driven by tourism, government, service and manufacturing industries. Three research universities – Florida State University, Florida A&M University, and the University of West Florida – provide research in a variety of disciplines. The region's military facilities provide contract opportunities for a number of local, regional and national companies, while also providing a source of skilled and dedicated workers after they separate from the military.

The regional economy as a whole has recovered from the trough of the COVID-19 pandemic. Employment in the eighteen county region is up 6.0 percent from June 2020. Florida statewide employment is up 7.8 percent over the same period. The recovery has been uneven within the Association's territory, with coastal counties and MSA regions recording the strongest employment growth.

Anchored by the metro areas of Tallahassee to the east and Pensacola to the west, with local economies in between driven by agriculture, tourism and a strong military base presence, economic growth in the Panhandle is typically less cyclical than peninsular Florida. Positive economic growth is forecasted during 2021-2024, on par with the forecasted growth rate for the state of Florida. Growth in economic activity comes from a combination of Leisure & Hospitality, Professional & Business Services, and Financial Services.

Employment in service-related industries is currently leading growth in the Panhandle. During 2021-2024, Leisure & Hospitality and Professional & Business Services are forecasted to outpace growth in other sectors. Operations at area military bases have been expanded over the past several years and unless there is a significant cut in defense spending, these facilities should continue to be positive economic growth engines for the foreseeable future.

The absence of a state income tax and the presence of a hospitable climate should help to attract retirees and others to the Panhandle region in the coming years.

Agricultural Economy

The agricultural economy in Northwest Florida experienced an overall average year in 2021. The western counties were impacted by tropical storms Elsa, Fred, and Mindy during the growing season, which negatively impacted yield potential on the cotton crop. The storms did not have an adverse impact on the peanut crop, with favorable harvest conditions and average to above average yields. Please see below for additional information on the primary commodity groups served by the Association.

Forestry –

The southern United States continues to be a world leader in traditional and emerging timber products due to a favorable exchange rate, strong infrastructure of mills, productive forestland, and updated market strategies. Overall, the wood products and paper products industries have experienced growth with pulp prices setting record highs. "Stumpage" prices for all five major products (pine saw timber, pine chip-n-saw, pine pulpwood, hardwood saw timber, and hardwood pulpwood) in the Association's territory increased year over year due to the strength of the residential housing market. Timberland appraisals increased in value for the first time in a decade. Bioenergy and wood pellet industries continue to develop and grow.

Row Crops –

World cotton demand is projected to increase to 123.4 million bales in 2021/22. World demand is expected to outpace supply resulting in a decrease in ending stocks to 87.1 million bales. In the U.S., the 2021 harvested area was forecasted at 9.9 million acres compared with 8.3 million acres in 2020. The national yield is estimated at 871 pounds per harvested acre compared with 847 pounds in 2020. Total U.S. cotton production in 2021 is projected at 18 million bales, an increase of 3.4 million bales or 23 percent over the 2020 crop. Cotton prices for 2021 varied from the lower 70 cents per pound range to over \$1.20 per pound, with the price rallying towards the high end of the range late in the season.

U.S. corn production is estimated at 15.1 billion bushels in 2021/22, an increase of 0.95 billion bushels from the previous year. Yields are forecasted at 177.0 bushels per acre. Growers in the U.S. planted approximately 92.7 million acres in 2021, an increase from the previous year. The season average farm price is projected at \$5.45 per bushel in 2021/22, a significant increase from the 2020/21 average farm price of \$4.52 per bushel. U.S. ending stocks are projected to increase to 1.5 billion bushels. The majority of corn grown in Northwest Florida is used for feed and sold locally, often receiving a positive basis resulting in a cash price higher than reported national prices.

Livestock –

After reaching a low in 2014, rebuilding of the U.S. cattle herd began in 2015 and continued through 2019. The USDA reported slight declines in herd size in 2020 and 2021. Despite the COVID-19 pandemic, the beef sector has experienced generally positive results, with retail demand outpacing the decline in commercial demand. Profitability has improved, with the majority of improved margins flowing toward packers and processors. Beef production is estimated at 27.9 billion pounds for 2021. The USDA forecasts a slight decline in beef production for 2022 to 27.0 billion pounds. Exposure to swine and poultry within the Association's territory is very limited.

Peanuts –

Acreage for the 2021 crop was down 83,000 acres from 2020 plantings of 1.66 million acres. Harvested acres in 2021 were forecasted at 1.52 million acres, a decline of 5.1 percent from 2020. Early reports indicate the peanut crop yield is above average with yields exceeding 4,000 pounds per acre. Production is forecasted to increase marginally by 1.2% in 2021 to 6.2 billion pounds. Domestic peanut use has continued to increase, with exports declining since 2019 to approximately 1.4 billion pounds in 2021. Total use is projected to outpace production resulting in a decrease in ending stocks to 2.0 billion pounds. Peanut prices on the national level averaged approximately \$500/ton in 2021.

Dairy –

In 2021, average milk prices increased \$0.43 per CWT from 2020 levels. Milk prices started the year off weaker, but trended higher throughout the year. U.S. milk production in 2021 was anticipated to expand 1.4 percent year over year to 225 billion pounds. The national dairy herd declined for the first time since 2018 while milk per cow trended higher. Exports continue to remain a key driver for milk prices. Feed costs increased significantly in 2021. Dairy prices are projected to increase throughout 2022, though not quickly enough to offset rising input costs.

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association has returned to pre-pandemic working conditions and is receiving customer branch visits with the appropriate precautions.

The COVID-19 pandemic has disrupted businesses and the global economy since March 2020. Significant progress was made during 2021 in mitigating the spread of COVID-19 resulting in improving macroeconomic conditions. However, the improvement has been hampered by disease variants, rising inflation, supply chain disruptions and labor shortages in the United States and globally.

COVID-19 Support Programs

Since the onset of the COVID-19 pandemic, the U.S. government has taken a number of actions by passing six economic relief and stimulus bills to help businesses, individuals, state/local governments and educational institutions that were adversely impacted by the economic disruptions caused by the COVID-19 pandemic. The economic relief resulted in appropriations of approximately \$5.4 trillion.

The farm sector and farm households were among those impacted and were provided financial assistance through the U.S. Department of Agriculture (USDA) and other government agency programs. Among the many programs was the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States government. Over the life of the program, the District extended loans to approximately 9,900 borrowers.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for the financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The gross loan volume of the Association as of December 31, 2021 was \$318,613, an increase of \$19,005 or 6.34 percent compared to \$299,608 at December 31, 2020, which represented an increase of \$15,428 or 5.43 percent compared to \$284,180 at December 31, 2019. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2021 were \$313,645, an increase of \$18,949 or 6.43 percent compared to \$294,696 at December 31, 2020, which represented an increase of \$15,045 or 5.38 percent compared to \$279,651 at December 31, 2019. Net loans accounted for 95.91 percent of total assets at December 31, 2021, compared to 96.07 percent of total assets at December 31, 2020 and 95.97 percent of total assets at December 31, 2019. The increases in gross loan volume and net loans outstanding in 2021 were due to an increase in net originated loans, partially offset by a decrease in purchased participation loans and nonaccrual loans.

The diversification of the Association's loan volume by FCA loan type for each of the past three years is shown in the table below.

Loan Type	December 31,					
	2021		2020		2019	
	(dollars in thousands)					
Real estate mortgage	\$ 224,981	70.61%	\$ 217,004	72.43%	\$ 200,755	70.64%
Production and intermediate-term	61,990	19.46	58,073	19.38	62,040	21.83
Loans to cooperatives	1,594	0.50	1,475	0.49	786	0.28
Processing and marketing	8,278	2.60	9,078	3.03	7,280	2.56
Farm-related business	5,446	1.71	3,706	1.24	3,907	1.38
Communication	—	0.00	—	0.00	1,337	0.47
Power and water/waste disposal	—	0.00	—	0.00	1,205	0.42
Rural residential real estate	15,280	4.80	9,229	3.08	5,827	2.05
International	1,044	0.32	1,043	0.35	1,043	0.37
Total	\$ 318,613	100.00%	\$ 299,608	100.00%	\$ 284,180	100.00%

The geographic distribution of accruing loan volume by branch for the past three years is as follows.

Branch	12/31/21	12/31/20	12/31/19
Marianna	26.86%	27.84%	27.85%
Milton	20.67	22.57	24.72
Tallahassee	15.98	18.10	18.39
Monticello	16.30	12.17	11.42
Special Assets	0.52	0.57	0.64
Home Loans	9.60	7.81	4.92
Capital Markets	10.07	10.94	12.06
Total	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are forestry, row crops, livestock, peanuts, rural homes, landlords and horticulture, which together constituted 87 percent of the entire portfolio at December 31, 2021.

Commodity Group	December 31,					
	2021		2020		2019	
	(dollars in thousands)					
Forestry	\$ 141,367	44%	\$ 130,547	43%	\$ 114,665	40%
Row Crops	40,620	13	41,974	14	40,709	14
Livestock	35,363	11	34,854	11	34,097	12
Peanuts	18,332	6	17,296	6	16,286	6
Rural Homes	15,654	5	9,224	3	5,820	2
Landlords	12,805	4	14,136	5	14,301	5
Horticulture	11,592	4	8,175	3	12,314	5
Dairy	7,930	2	5,387	2	6,274	2
Hunting/Trapping/Game	4,330	1	14,060	5	14,349	5
Other	30,620	10	23,955	8	25,365	9
Total	\$ 318,613	100%	\$ 299,608	100%	\$ 284,180	100%

Repayment ability is closely related to the commodities produced by borrowers and, increasingly, by borrowers' non-farm income. The Association's loan portfolio contains a large concentration in the forestry industry; however, due to the non-farm income of borrowers in this industry classification, sources of repayment are varied, reducing the overall risk exposure to this commodity.

During 2021, the Association was active in buying and selling loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, further strengthening its capital position.

Loan Participations	2021	2020	2019
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 32,094	\$ 32,675	\$ 34,134
Participations Purchased			
– Non-FCS Institutions	143	192	195
Participations Sold	(73,269)	(72,177)	(55,865)
Total	\$ (41,032)	\$ (39,310)	\$ (21,536)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2021.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association reviews the credit quality of the loan portfolio on an ongoing basis. With the approval of the Board of Directors, the Association has established underwriting standards and lending policies that provide direction to loan officers. 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
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds or industry implications

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon anticipated cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by a first lien on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. In addition, each loan is assigned a credit risk rating based upon the Association's underwriting standards. The credit risk rating process incorporates both objective and subjective criteria to identify inherent strengths, weaknesses and risks in loan transactions.

The credit quality of the loan portfolio is reviewed on an ongoing basis as part of the Association's risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit 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 to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2021	2020	2019
Acceptable & OAEM	97.62%	98.38%	96.86%
Substandard	2.38	1.62	3.14
Doubtful	—	—	—
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	12/31/21	12/31/20	12/31/19
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	\$ 451	\$ 1,266	\$ 1,833
Accruing loans 90 days past due	—	—	—
Total high-risk loans	451	1,266	1,833
Other property owned	45	—	4
Total high-risk assets	\$ 496	\$ 1,266	\$ 1,837
Ratios			
Nonaccrual loans to total loans	0.14%	0.42%	0.64%
High-risk assets to total assets	0.15%	0.41%	0.63%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased by \$815 or 64.38 percent in 2021. Of the \$451 in nonaccrual loan volume at December 31, 2021, \$244 or 54.10 percent was current as to scheduled principal and interest payments, compared to 53.32 percent and 50.30 percent at December 31, 2020 and 2019, respectively.

Other property owned (OPO) increased by \$45 in 2021. During 2021, real estate and equipment with a book value of \$540 was sold. As of December 31, 2021, OPO consisted of equipment.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is determined according to generally accepted accounting principles.

The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Loss Activity:	2021	2020	2019
	(dollars in thousands)		
Balance at beginning of year	\$ 4,912	\$ 4,529	\$ 4,529
Charge-offs:			
Real estate mortgage	(50)	(1)	(199)
Production and intermediate term	(175)	(30)	(319)
Agribusiness	—	—	—
Rural residential real estate	—	—	—
Total charge-offs	(225)	(31)	(518)
Recoveries:			
Real estate mortgage	254	138	247
Production and intermediate term	26	169	394
Agribusiness	1	11	44
Rural residential real estate	—	96	40
Total recoveries	281	414	725
Net (charge-offs) recoveries	56	383	207
Provision for (reversal) of allowance for loan losses	—	—	(207)
Balance at end of year	\$ 4,968	\$ 4,912	\$ 4,529
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.018%	0.134%	0.074%

The allowance for loan losses by loan type for the most recent three years is presented in the following table.

	December 31,		
Allowance for Loan Losses by Type	2021	2020	2019
	(dollars in thousands)		
Real estate mortgage	\$ 3,504	\$ 3,561	\$ 3,204
Production and intermediate-term	971	948	983
Agribusiness	239	235	192
Rural residential real estate	238	151	93
Other	16	17	57
Total loans	\$ 4,968	\$ 4,912	\$ 4,529

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31,		
	2021	2020	2019
Total loans	1.56%	1.64%	1.59%
Nonperforming loans	236.12%	164.89%	123.74%
Nonaccrual loans	1,101.55%	387.99%	247.08%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2021 totaled \$8,078, an increase of \$882 or 12.26 percent compared to net income of \$7,196 for 2020, which represented an increase of \$782 or 12.19 percent compared to net income of \$6,414 for 2019. The increase in net income for 2021 was due primarily to increased noninterest income and net interest income, partially offset by increased noninterest expense. The increase in net income for 2020 was due primarily to increased noninterest income and net interest income, partially offset by increased noninterest expense and no reversal of the allowance for loan

losses. Major components of the changes in net income for the past two years are outlined in the following table. Further discussion of each component is provided in the sections below.

Change in Net Income:	2021-2020	2020-2019
	(dollars in thousands)	
Net income (loss) prior year	\$ 7,196	\$ 6,414
Increase (decrease) in net income due to:		
Interest income	218	(1,051)
Interest expense	163	1,076
Net interest income	381	25
Provision for loan losses	—	(207)
Noninterest income	1,313	1,348
Noninterest expense	(812)	(384)
Provision for income taxes	—	—
Total changes in income	882	782
Net income (loss)	\$ 8,078	\$ 7,196

Net Interest Income

Net interest income (before provision for or reversal of allowance for loan loss) for the year ended December 31, 2021 totaled \$9,257, an increase of \$381 or 4.29 percent compared to net interest income of \$8,876 for 2020, which represented an increase of \$25 or 0.28 percent compared to net interest income of \$8,851 for 2019. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt.

Net interest income is impacted by changes to interest income and interest expense. Interest income for the year ended December 31, 2021 increased due to higher average loans outstanding, partially offset by lower interest rates on loans and decreased interest income recognized on nonaccrual loans. Interest expense decreased for 2021 due to lower interest rates, partially offset by higher average notes payable to AgFirst. Interest income for the year ended December 31, 2020 decreased due to lower interest rates on loans, partially offset by higher average loans outstanding and increased interest income recognized on nonaccrual loans. Interest expense decreased for 2020 due to lower interest rates, partially offset by higher average notes payable to AgFirst.

The effects of changes in average volume and interest rates on net interest income are presented in the following table:

Change in Net Interest Income:			
	Volume*	Rate	Total
	(dollars in thousands)		
12/31/21 - 12/31/20			
Interest income	\$ 1,350	\$ (1,132)	\$ 218
Interest expense	690	(853)	(163)
Change in net interest income	\$ 660	\$ (279)	\$ 381
12/31/20 - 12/31/19			
Interest income	\$ 302	\$ (1,353)	\$ (1,051)
Interest expense	143	(1,219)	(1,076)
Change in net interest income	\$ 159	\$ (134)	\$ 25

*Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended			Percentage	
	December 31,			Increase/(Decrease)	
	2021	2020	2019	2021/2020	2020/2019
	(dollars in thousands)				
Loan fees	\$ 94	\$ 115	\$ 53	(18.26)%	116.98 %
Patronage refunds from other Farm Credit Institutions	5,446	4,321	3,030	26.04	42.61
Other noninterest income	617	408	413	51.23	(1.21)
Total noninterest income	\$ 6,157	\$ 4,844	\$ 3,496	27.11 %	38.56 %

Noninterest income for the year ended December 31, 2021 totaled \$6,157, an increase of \$1,313 or 27.11 percent compared to \$4,844 in 2020, which represented an increase of \$1,348 or 38.56 percent compared to noninterest income of \$3,496 in 2019. The increase in noninterest income for 2021 was due to increases in patronage refunds, gains on sales of rural home loans, fees for financially related services, and other gains, partially offset by decreases in loan fees and other noninterest income. The increase in noninterest income for

2020 was due to increases in patronage refunds, loan fees and gains on sales of rural home loans, partially offset by decreases in insurance fund refunds and other noninterest income, and increased losses on other transactions. Special patronage refunds from AgFirst totaled \$3,079 in 2021, \$2,333 in 2020, and \$1,142 in 2019. These special patronage distributions are expected to decrease in future years.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

Noninterest Expense	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2021	2020	2019	2021/ 2020	2020/ 2019
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 5,160	\$ 4,611	\$ 4,144	11.91 %	11.27 %
Occupancy and equipment	235	251	327	(6.37)	(23.24)
Insurance Fund premiums	348	185	173	88.11	6.94
(Gains) losses on OPO	(50)	4	(14)	(1,350.00)	128.57
Other operating expenses	1,643	1,473	1,510	11.54	(2.45)
Total noninterest expense	\$ 7,336	\$ 6,524	\$ 6,140	12.45 %	6.25 %

Salaries and employee benefits increased by \$549 or 11.91 percent in 2021, reflecting an increase in salaries, incentives and employee benefits, partially offset by higher deferred personnel costs. Occupancy and equipment expense decreased by \$16 or 6.37 percent, primarily reflecting decreases in depreciation and utility expenses. Insurance fund premiums increased by \$163 or 88.11 percent due to higher average notes payable balances and increased premium assessment rates. Losses on OPO decreased by \$54 or 1,350.00 percent. Other operating expenses increased by \$170 or 11.54 percent.

Income Taxes

The Association recorded \$0 income tax provision or benefit for the year ended December 31, 2021, compared to \$0 for 2020 and \$0 for 2019.

Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve month periods ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/21	For the 12 Months Ended 12/31/20	For the 12 Months Ended 12/31/19
Return on Average Assets	2.56%	2.49%	2.26%
Return on Average Members' Equity	9.25%	8.34%	7.47%
Net Interest Income as a Percentage of Average Earning Assets	2.96%	3.11%	3.16%
Net (Charge-offs) Recoveries to Average Loans	.018%	0.134%	0.074%

The return on average assets and return on average members' equity increased for the year ended December 31, 2021 due primarily to the changes in net income described above. Net interest income as a percentage of average earning assets decreased in 2021 due to a decrease in earnings provided by the loanable funds credit. Net recoveries to average loans decreased in 2021 due primarily to net recoveries of \$56 in 2021 compared to net recoveries of \$383 in 2020.

The return on average assets and return on average members' equity increased for the year ended December 31, 2020 due primarily to the changes in net income described above. Net

interest income as a percentage of average earning assets decreased in 2020 due to a decrease in earnings provided by the loanable funds credit, partially offset by an increase in net interest spread. Net recoveries to average loans increased in 2020 due primarily to net recoveries of \$383 in 2020 compared to net recoveries of \$207 in 2019.

Key factors in the growth of net income for future years will be quality loan growth, adequate net interest margins, operating expense control, and improvement in noninterest income. The Association's goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve a desirable rate of return for members. To meet this goal, the Association must attract and maintain high quality loan volume priced at competitive rates and manage credit risk across the entire portfolio, while efficiently meeting the credit needs of members.

LIQUIDITY AND FUNDING SOURCES*Liquidity and Funding*

The principal source of funds for the Association is the borrowing relationship established with the Bank through the General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

The total notes payable to the Bank at December 31, 2021 were \$230,976 compared to \$213,221 at December 31, 2020 and \$200,279 at December 31, 2019. The 2021 increase of \$17,755 or 8.33 percent was due primarily to an increase in net loans. The 2020 increase of \$12,942 or 6.46 percent was due primarily to an increase in net loans.

The average volume of notes payable to the Bank was \$223,879, \$198,979 and \$194,747 for the years ended

December 31, 2021, 2020 and 2019 respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable with the Bank.

The Association had no lines of credit outstanding with third parties as of December 31, 2021.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

The Association's net interest income as a percentage of average earning assets decreased to 2.96 percent for the year ended December 31, 2021 from 3.11 percent for the year ended December 31, 2020. The decrease reflected decreased earnings on loanable funds in 2021.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to require additional capital contributions from the Association is discussed in Note 4, *Equity Investments in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding"

section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

The Association has an agreement with the Bank whereby the Bank may provide certain fiscal, personnel, accounting, marketing, communication, public relations, information management, computer and certain other services as requested by the Association. Specific services currently provided by the Bank to the Association, in which each service provided would constitute a material interdependent relationship, include information management, computer services/hosting, payroll processing and related payroll tax services.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2021 that would affect minimum stock purchases or have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity as of December 31, 2021 was \$86,467, an increase of \$1,828 or 2.16 percent compared to \$84,639 at December 31, 2020, which represented an increase of \$664 or 0.79 percent compared to \$83,975 at December 31, 2019. The increases in members' equity for 2021 and 2020 were due to net income retained in excess of distributions to members.

Total capital stock and participation certificates were \$1,393 on December 31, 2021, compared to \$1,274 on December 31, 2020 and \$1,132 on December 31, 2019. The changes are reflective of the stock and participation certificate requirements as existing loans are repaid and new loans are made.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect.

The following sets forth the regulatory capital ratios and the Association's capital ratios as of December 31, 2021, 2020 and 2019:

		Capital Conservation	Minimum Requirement with Capital	Capital Ratios as of December 31,		
Ratio	Minimum Requirement	Buffer*	Conservation Buffer	2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.5%	7.0%	25.69%	27.22%	28.20%
Tier 1 Capital Ratio	6.0%	2.5%	8.5%	25.69%	27.22%	28.20%
Total Capital Ratio	8.0%	2.5%	10.5%	26.95%	28.47%	29.46%
Permanent Capital Ratio	7.0%	0.0%	7.0%	26.02%	27.56%	28.56%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	26.51%	28.38%	29.20%
3UREE Leverage Ratio	1.5%	0.0%	1.5%	26.21%	28.21%	28.32%

* The capital conservation buffers were phased in over a 3 year period and became fully effective January 1, 2020, with the exception of the tier 1 leverage ratio, which became fully effective January 1, 2017.

If capital ratios fall below the minimum regulatory 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.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a patronage allocation program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After consideration of these capital needs, net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning patronage distributions. The Association declared patronage distributions of \$6.37 million in 2021. Patronage distributions of \$5.85 million were declared in 2020 and \$3.25 million in 2019. The Association will pay patronage in the amount of \$6.72 million from 2021 patronage-sourced net earnings, which exceeds the declared patronage distribution of \$6.37 million due to actual patronage-sourced net earnings in excess of estimated earnings for 2021.

YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS PROGRAM

The Association's mission includes providing sound and constructive credit to Young, Beginning and Small (YBS) farmers and ranchers. The Board of Directors and management are responsible to ensure the Association is making appropriate efforts to implement an effective YBS program. The Board of Directors approves YBS policies, as well as the annual business plan, which outline strategies to accomplish the YBS mission and goals, and measure the program's performance. As part of its YBS program, the Association also seeks to provide financing to underserved commodities and local food hubs within its territory, many of which are operated by YBS farmers and ranchers.

Definitions

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is 35 years of age or less as of the date the loan is originally made.

Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products whose experience in farming or ranching as of the date the loan is originally made is 10 years or less.

Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than \$250 thousand in annual gross sales of agricultural or aquatic products as of the date the loan is originally made.

YBS Program Strategies

The Association's YBS Farmer and Rancher Program complies with statutory and regulatory requirements which include program goals for quantitative measurements of the number and volume of YBS loans and strategies the Association will employ to meet program objectives.

The Association's YBS Farmer and Rancher Policy provides for loans in this segment to be underwritten according to normal commodity-based standards. Since these groups may have weaker credit factors, consideration has been given in regard to certain financial benchmarks traditionally weaker for the YBS segment. The Association's policy provides pricing and fee concessions for production-oriented YBS borrowers. Association staff works with otherwise qualified YBS applicants to offset weaknesses through additional obligors, additional pledges of collateral, or through obtaining FSA loan guarantees. The Association is an approved FSA lender. The Association's Board of Directors and management continue to evaluate the YBS Farmer and Rancher Policy to determine if additional lending inducements can be added in a manner still providing for safe and constructive financing.

In 2021, the Association continued to place emphasis on involvement in agricultural events and affiliations in our chartered territory with a tie to Young, Beginning, and Small farmers and ranchers. Due to the COVID-19 pandemic, many events pivoted their locations to virtual platforms. The

Association actively participated in agricultural events through sponsorships and virtual speaking engagements. The Association worked both independently and in cooperation with agriculturally focused affiliates and educational systems in the territory. Association members can expect this level of participation to continue throughout 2022.

In complementary initiatives, the YBS Advisory Committee continued to provide input to the Association's Board of Directors regarding future YBS policy development and program planning. The YBS Advisory Committee will continue meeting in 2022.

2022 strategies for meeting program objectives include:

- Continue to periodically evaluate the effectiveness of the YBS Policy and Program and provide consideration for YBS Advisory Committee input into the policy and program.
- Host or co-host educational seminars and other resources for YBS farmers and ranchers within the territory.
- Build stronger relationships with local Farm Service Agency, NRCS and Soil and Water Conservation staff.
- Provide educational opportunities for FFA and 4-H students.
- Lender participation in YBS events to teach skills important to agriculture and promote Farm Credit products and services.
- YBS Volunteer Program to encourage non-lending staff participation in events educating about and/or promoting agriculture.

YBS Program Quantitative Goals

In 2021, the Association continued to market and originate loans to YBS farmers and ranchers. The Association increased the number of loans in all YBS categories in 2021. Loan volume increased in all YBS categories over the prior year-end. For 2022, the Association projects an increase in all YBS categories for number of loans and loan volume.

The following charts show by YBS category:

- Changes in number and volume of YBS loans during 2021
- Number and volume of YBS loans as of December 31, 2021
- 2022 quantitative YBS goals

Changes in YBS Categories during 2021:

	Increase/(Decrease) # Loans	Increase/(Decrease) Loan Volume (dollars in thousands)
Young	24	\$ 5,489
Beginning	51	\$ 10,270
Small	28	\$ 197

Association Number and Volume of YBS Loans as of December 31, 2021:

	# of YBS Loans	Volume YBS Loans (dollars in thousands)
Young	247	\$ 27,156
Beginning	836	\$ 117,141
Small	1,200	\$ 139,509

2022 Quantitative Goals for YBS:

	# of YBS Loans	Volume YBS Loans (dollars in thousands)
Young	259	\$ 27,736
Beginning	880	\$ 123,272
Small	1,367	\$ 148,209

For purposes of the above tables, a loan could be included in more than one of the categories depending on the characteristics of the underlying borrower.

Association Comparison to YBS Territorial Demographics

Association Market Share as of December 31, 2021:

	2017 Ag Census	Association Loans "In Territory"	Market Share Percentage
Young	676	238	35.21%
Beginning	2,664	798	29.95%
Small	7,620	1,149	15.08%

The 2017 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's YBS Program efforts. For purposes of the census, a farm is any place from which \$1,000 or more of agricultural products were produced or sold, or normally would have been sold during the census year. This is similar to how the Association defines an agricultural borrower. The Association's designation as being "in territory" is tied to the borrower having a farm operation headquartered or some agricultural involvement in one of the eighteen counties that comprises the Association's chartered territory. For purposes of the comparison above, the Ag Census data and the Association's numbers are not determined using exactly the same methodology. Market share percentages may be distorted due to a farm (that would be counted once in the census) potentially having more than one loan with the Association.

YBS Program Summary

In summary, the Association is committed to implementing an effective program, helping YBS farmers and ranchers receive sound and constructive credit and working diligently to achieve our YBS mission of "Helping Rural America Grow by supporting diversity and inclusion in agriculture".

REGULATORY MATTERS

On September 9, 2021, the FCA adopted a final rule that amended certain sections of the FCA's regulations to provide technical corrections, amendments, and clarification to certain provisions in the FCA's tier 1/tier 2 capital framework for the Farm Credit System. The rule incorporates guidance previously provided by the FCA related to its tier 1/tier 2 capital framework as well as ensures that the FCA's capital requirements continue to be comparable to the standardized approach that the other federal banking regulatory agencies have adopted. The final rule became effective on January 1, 2022.

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period was open until January 24, 2022.

On June 30, 2021, the FCA issued an advance notice of proposed rulemaking (ANPRM) that seeks public comments on whether to amend or restructure the System bank liquidity regulations. The purpose of this advance notice is to evaluate the applicability of the Basel III framework to the Farm Credit System and gather input to ensure that System banks have the liquidity to withstand crises that adversely impact liquidity and threaten their viability. The public comment period ended on November 27, 2021.

On September 23, 2019, the FCA issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

LIBOR TRANSITION

In 2017, the United Kingdom's Financial Conduct Authority (UK FCA), which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021.

On March 5, 2021, ICE Benchmark Administration (IBA) (the entity that is responsible for calculating LIBOR) announced its intention to cease the publication of the one-week and two-month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining US dollar LIBOR settings immediately following the LIBOR publication on June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising from loans made to customers, Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf, and preferred stock issued by the Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held.

The FCA has issued guidelines with similar guidance as the U.S. prudential regulators but applicable for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure, stop the inflow of new LIBOR volume, and adjust operating processes to implement alternative reference rates.

On December 8, 2021, the FCA issued another informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-referenced contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR (beyond SOFR), including credit-sensitive alternative rates.

The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

On July 26, 2021, the Alternative Reference Rates Committee (ARRC) announced it will recommend the CME Group's forward-looking SOFR term rates. The ARRC's formal recommendation of SOFR term rates is a major milestone and is expected to increase the volume of transactions quoted in SOFR, supporting the implementation of the transition away from LIBOR.

On October 20, 2021, the U.S. prudential regulators issued a joint statement emphasizing the expectation that supervised institutions with LIBOR exposure continue to progress toward an orderly transition away from LIBOR, reiterating that supervised institutions should, with limited exceptions, cease entering into new contracts that use US dollar LIBOR as a reference rate as soon as practicable, but no later than December 31, 2021. They further stated that entering into new contracts, including derivatives, after that date would create safety and soundness risks. The joint statement clarified that entering into such new contracts would include an agreement that (1) creates additional LIBOR disclosure or (2) extends the term of an existing LIBOR contract, but that a draw on an existing agreement that is legally enforceable, e.g., a committed credit facility, would not be a new contract. The joint statement also provided considerations when assessing the appropriateness of alternative reference rates used in lieu of LIBOR and the regulator expectation that new or updated LIBOR contracts include strong and clearly defined fallback rates for when the initial reference rate is discontinued.

The following is a summary of Association variable-rate financial instruments with LIBOR exposure at December 31, 2021:

<i>(dollars in thousands)</i>	Due in 2022	Due in 2023 And Thereafter	Total
Loans	\$ 255	\$ 16,667	\$ 16,922
Total Assets	\$ 255	\$ 16,667	\$ 16,922
Note Payable to AgFirst Farm Credit Bank	\$ 183	\$ 11,996	\$ 12,179
Total Liabilities	\$ 183	\$ 11,996	\$ 12,179

The LIBOR transition plan includes implementing fallback language into variable-rate financial instruments maturing after June 30, 2023 which provides the ability to move these instruments to another index if the LIBOR market is no longer viable. At December 31, 2021, 10.13 percent of loans maturing after June 30, 2023 do not contain fallback language.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
- Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the entire remaining life of the financial assets. - Changes the present incurred loss impairment guidance for loans to an expected loss model. - Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. - Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. - Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. - Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	- Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. - The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: - The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, - An allowance will be established for estimated credit losses on any debt securities, - The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. - The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. - The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

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, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

The Association wholly owns one unincorporated business entity (UBE), as follows: East Wing Ranch, LLC is a Florida limited liability company, which was organized for the purpose of holding net acquired property owned by the Association.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

Location	Description	Form of Ownership
5052 Hwy. 90 East Marianna	Administrative/ Branch	Owned
5336 Stewart Street, SE Milton	Branch	Owned
925 W. Washington Monticello	Branch	Owned
3323 Thomasville Road Tallahassee	Branch	Owned
3927 Highway 4, Suite 103 Jay	Branch	Leased

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the executive officers of the Association:

Senior Officers	Position & Other Business Interests
John R. Gregory	<i>President & Chief Executive Officer</i> since January 1, 2022. <i>Vice President and Senior Special Assets Manager</i> with Rabo AgriFinance from May 2017 thru December 2021. <i>Special Assets Manager and Capital Markets Officer</i> with the Association from April 2008 thru April 2017.
John P. Mottice	<i>Chief Financial Officer</i> since April 2014. <i>Capital Markets Officer</i> from April 2011 thru March 2014. Mr. Mottice serves as President and Director of Centre Pointe Office Condominium Association, Inc., an owners' association for an office condominium project.
Chuck Thiele	<i>Chief Credit Officer</i> since March 2013. <i>Credit Administrator</i> from January 2010 thru February 2013.
DeAndrea Barber	<i>Chief Operations Officer</i> since March 2013. <i>Policy and Operations Manager</i> from January 2010 thru February 2013. <i>Loan Operations Manager</i> from December 2005 thru December 2009.
Dorislynn White-Padgett	<i>Director of Human Resources</i> since March 2022. <i>Manager of Human Capital</i> from March 2014 thru February 2022. <i>Senior Human Resource Administrator</i> from January 2012 thru February 2014. <i>Regional Loan Operations Supervisor</i> from June 2007 thru December 2011.
Michael Digmon	<i>Chief Lending Officer</i> since March 2022. <i>Regional Lending Manager (Western Region)</i> from August 2017 thru February 2022. <i>Principal Loan Officer</i> from April 2013 thru July 2017.

The business experience for the past five years for executive officers is with the Farm Credit System, with the exception of John Gregory which is described above.

The total amount of compensation earned by the CEO, senior officers and other highly compensated individuals as a group during the years ended December 31, 2021, 2020 and 2019, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perq./ Other**	Total
Ricky Bitner	2021	\$ 282,925	\$ 42,439	\$ 3,028	\$ —	\$ 6,230	\$ 334,622
Ricky Bitner	2020	\$ 271,510	\$ 40,727	\$ 1,648	\$ —	\$ 8,861	\$ 322,746
Ricky Bitner	2019	\$ 265,010	\$ 31,801	\$ 2,107	\$ —	\$ 8,552	\$ 307,470
7***	2021	\$ 753,467	\$ 385,611	\$ —	\$ 41,531	\$ 23,256	\$ 1,203,865
7***	2020	\$ 732,157	\$ 339,955	\$ —	\$ 168,941	\$ 18,808	\$ 1,259,861
6	2019	\$ 697,949	\$ 87,343	\$ —	\$ 198,386	\$ 14,652	\$ 998,330

* Change in Pension Value as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion under Retirement and Deferred Compensation Plans below and in Note 9, Employee Benefit Plans, of the Consolidated Financial Statements included in this Annual Report.

** Perquisites/Other amounts disclosed in the above table include group life insurance premiums and automobile compensation.

*** 2021 and 2020 include six senior officers and one commission-based employee. Commissions are included in the Bonus column above.

The disclosure of information on the total compensation paid during 2021 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On February 4, 2015, the FCA Board approved the final rule, “Disclosure to Shareholders; Pension Benefit Disclosures.” The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a “highly compensated employee” solely because of payments related to or change(s) in value of the employee’s qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015 and subsequent years.

In addition to base salary, all employees (with the exception of mortgage loan officers) have the ability to earn additional compensation under an incentive plan. The Association incentive plan is designed to motivate employees to complete actions needed to achieve business plan goals during the fiscal year.

The incentive plan includes two components – the primary incentive plan (referred to hereafter as the “General Incentive Plan”) that is available to all qualifying staff members and the business development plan (referred to hereafter as the “Agribusiness/Capital Markets Plan”) that is available to agribusiness and capital markets loan officers to incent business development activity.

Mortgage loan officers are eligible for compensation under a commission plan based on loan volume production (referred to hereafter as the “MLO Compensation Plan”).

The General Incentive Plan is measured annually and is based on one performance cycle from January through December. To participate in the General Incentive Plan an employee must not have terminated employment prior to nor be on probation at the end of the performance cycle, and the employee must have satisfactory performance as measured by their most recent performance appraisal.

The General Incentive Plan is measured utilizing credit quality, delinquency rate, loan volume and return on assets. Under the plan, points are awarded for meeting various benchmarks such as the percentage of loans that carry a credit quality grade of “Acceptable”, the percentage of past due loans to accruing loan volume, the amount of loan volume, and the return on assets ratio. The performance against the established benchmarks translates to a certain number of awarded points. Based upon how many points were achieved for the performance cycle, qualifying staff members are awarded a percentage of their total compensation. The percentage awarded is based upon the total points earned during the performance cycle as well as the employee’s salary grade.

Under the General Incentive Plan, the percentage of compensation that could be awarded ranges from 3 percent to 15 percent of the employee’s total compensation during the performance cycle. Senior officers do not specifically earn higher awards under the plan by virtue of their position; however, generally speaking, a senior officer would be expected to have a higher salary grade based upon their increased level of responsibility and accountability for Association performance. For 2021, awards under the General Incentive Plan ranged from 6 percent to 15 percent for the performance cycle (January through December). Payment to employees covered under this plan is made as soon as practicable following the performance cycle.

Under the Agribusiness/Capital Markets Plan, loan officers earn points for developing new business by originating loans to new and existing borrowers, as well as by increasing portfolio growth. There are two performance cycles, January through June and July through December, for measuring new business development. There is one performance cycle, January through December, for measuring portfolio growth. Eligible new loans must satisfy established standards, including meeting regulatory requirements for borrower eligibility, receiving a satisfactory loan review grade to show acceptable credit administration standards, and maintaining an “Acceptable” credit classification during the plan year. Loan officers are awarded points based on their performance against a pre-determined business development quota and growth benchmarks for their individual loan portfolios. Loan officers are eligible to earn an incentive award of up to 36 percent of their total compensation. For 2021, incentive awards for developing new business development ranged from 0 percent to 30 percent for both performance cycles. For 2021, incentive

awards for measuring portfolio growth ranged from 0 percent to 6 percent. If a loan officer failed to achieve a certain percentage of their predetermined quota and failed to meet their portfolio growth benchmarks, no points were awarded and that loan officer received no incentive under the plan. The Association's Chief Lending Officer, who is a senior officer, is eligible to participate in the Agribusiness/Capital Markets Plan based upon the cumulative results of loan officers under his direction. Payment to employees covered under this plan is made as soon as practicable following each performance cycle.

Under the MLO Compensation Plan, commissions are calculated at rates ranging from 0.25 percent to 1.00 percent of monthly loans closed. Payment to employees covered under this plan is made monthly. For 2021, commissions paid ranged from 0.25 percent to 1.00 percent. Mortgage loan officers are not eligible under the General Incentive Plan and related components as described above. The CEO and senior officers are not eligible for the MLO Compensation Plan.

During 2021, under the General Incentive Plan, Agribusiness/Capital Markets Plan, and MLO Compensation Plan as described above, the retiring CEO earned \$42,439 and senior officers and other highly compensated individuals

earned \$385,611. Those amounts are presented as a bonus in the table above. Bonuses are shown in the year earned, which may be different from the year of payment.

Senior officers and other Association employees are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking, registration fees and other expenses associated with travel on official business. Some senior officers and other Association employees are assigned an automobile to be utilized in the performance of Association duties. Personal usage of the assigned automobile is allowed. Any personal usage is considered a benefit to the officer or employee and is included as income to the individual in accordance with IRS regulations. Total benefit to senior officers for the personal usage of Association automobiles during 2021 was \$19,729.

A copy of the Association's expense and incentive plan policies is available to shareholders upon request. Disclosure of information on the total compensation earned in 2021 by any senior officer, or by any individual included in the total, is available to shareholders upon request.

**Pension Benefits Table
As of December 31, 2021**

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2021
CEO:					
Ricky Bitner	2021	AgFirst Retirement Plan		\$ —	\$ —
Ricky Bitner	2021	Supplemental Executive Retirement Plan		—	—
				\$ —	\$ —
Senior Officers and Highly Compensated Employees:					
7 employees, excluding CEO	2021	AgFirst Retirement Plan	26.67*	\$ 992,825	\$ —
				\$ 992,825	\$ —

*Represents the average years of credited service for the group. Only one employee participates in the AgFirst Retirement Plan.

Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Association is to offer benefit plans that are market competitive and aligned with the Association's strategic objectives. The plans are designed to enable the Association to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Association's mission and that allows the Association to align the human capital needs with the Association's overall strategic plan.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is

defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

All employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan, which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to \$0.50 for each \$1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to \$1.00 for each \$1.00 of employee

compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning in 2015, employees hired on or after January 1, 2003 receive an additional employer contribution of 3 percent of eligible compensation.

The former CEO, Mr. Bitner, participated in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association. The Association accrued a contribution of \$3,029 to this plan for Mr. Bitner during 2021. No other employees participated in this plan during 2021.

Please see Note 9, *Employee Benefit Plans*, for further information on benefit plans.

Directors

The following chart details the directors serving in 2021, their current term of service and total cash compensation paid:

Name of Director	Current Term	Total Compensation
Cindy Eade, <i>Chairperson</i>	2020-2023	\$ 10,500
D. Mark Fletcher, <i>Vice Chairman, Outside Director, Financial Expert</i>	2020-2023	18,350
Melvin Adams	2018-2021	3,200
Damon Boutwell	2019-2022	10,500
James R. Dean, <i>Outside Director</i>	2020-2023	8,750
Joseph M. Diamond	2018-2021	4,650
Ernest C. Fulford	2019-2022	8,750
Jacob Gilmore	2021-2024	3,700
Glen Strange	2020-2023	7,650
Richard Terry	2020-2023	8,400
Michael Thompson	2019-2022	8,100
R. Douglas Walker	2021-2024	9,400
David Yoder	2021-2024	4,350
Total		\$ 106,300

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years.

Cindy S. Eade, Chairperson, has been in dairy production for over twenty years and this has been her principal occupation for the past five years. She is the co-owner and manager of Cindale Farms LLC and Southern Craft Creamery. She is past Chairperson of the board of directors of the Jackson County Chamber of Commerce (business and community development) and a past appointed member/secretary of the Florida Soil and Water Conservation Council. Ms. Eade is a member of Southeastern Milk, Inc. (a milk marketing cooperative). Ms. Eade serves as the Chairperson of the Board of Farm Credit of Northwest Florida and as Chairperson of the Executive Committee.

D. Mark Fletcher, CPA, Vice Chairman, is an outside director. Mr. Fletcher has twenty-eight years of experience in public accounting and is the senior partner in charge of the Tallahassee, Florida office of Lanigan and Associates, P.C. This has been his principal occupation for the past five years. Mr. Fletcher serves as Chairman of the Audit Committee and is designated as the Association's financial expert.

Melvin T. Adams owns and operates a cattle operation and row crop farm in Jackson and Holmes Counties. This has been his principal occupation for the past five years. He is co-owner of 2WO A Farms LLC and Gum Creek Cattle LLC, both farming and ranching entities. Mr. Adams is on the board of directors of SOWEGA Gin (a cotton gin). Mr. Adams ended his term of service on the Farm Credit of Northwest Florida Board of Directors in 2021.

Damon Boutwell is the General Manager of the Pace Water System, Inc. This has been his principal occupation for the past five years. He also served as Assistant Manager and previously as Utility Engineer from 2002 until 2012. Mr. Boutwell owns and manages a 225-acre farm consisting of a 50 brood cow cattle operation on 95 acres of pastureland, 90 acres of timberland and wildlife habitat, and 40 acres of hay that is leased to a hay contractor/producer. He is also the Managing Partner for some 600 acres of family trust lands. He currently serves on the Executive Board of Leadership Santa Rosa and Leadership Santa Rosa Alumni and is a past member of the advisory board of United Bank. Mr. Boutwell is Farm Credit of Northwest Florida's appointed representative to the AgFirst District Nominating Committee and a member of the AgFirst District Advisory Committee.

James R. Dean is an outside director and has over twenty years of experience in the field of Economic and Community Development. He is currently the City Manager of Marianna, Florida. This has been his principal occupation for the past five years. He has served in that position since March of 2008. From July 2006 until March 2008, he was a District Director with the USDA, Rural Development. He is a former employee of Farm Credit of Northwest Florida. Mr. Dean serves as the Chairman of the Compensation Committee. He currently serves as a member of the Board of Trustees for Chipola College.

Joseph M. "Mickey" Diamond is the owner/operator of a row crop farming operation located near Jay, Florida. He has farmed for 34 years, and farming has been his principal occupation for the past five years. His farm operation consists of 1,600 acres of cotton and peanuts. He also provides custom farming applications for other local farmers. Mr. Diamond serves on the boards of the Escambia River Electric Co-op (rural electric service), the Santa Rosa County Farm Bureau (agricultural federation), Blackwater Soil and Water Conservation District (conservation), Autauga Cotton Association (cotton marketing), and the American Cotton Council (cotton promotion). He also serves on the advisory committees of the Santa Rosa County Extension Service and the University of Florida Research Station at Jay. Mr. Diamond served as a member of the AgFirst District Legislative Advisory Committee in 2021. Mr. Diamond ended his term of service on the Farm Credit of Northwest Florida Board of Directors in 2021.

Ernest C. Fulford is the owner/operator of a row crop farming operation located near Monticello, Florida. He has farmed in the Monticello area for 32 years, and farming has been his principal occupation for the past five years. His farming operation consists of 1,200 acres of cotton, peanuts, and green peanuts. Mr. Fulford is a member of the Board of the Jefferson County Farm Bureau where he currently serves as president. He is also a member of the Jefferson County Farm Services Agency County Committee, and he serves on the Peanut/Cotton Advisory Committee of Florida Farm Bureau. He is a partner in Boston Peanut Company located in Boston, Georgia. Mr. Fulford is a

member of the Florida Peanut Producers Association, the Florida Peanut Federation and Florida Farm Bureau.

Jacob Gilmore is the Vice President of Finance and Purchasing for Gilmore Services, a family business that has operated for 65 years. The business was founded as a moving and storage company and has expanded to include records storage, document shredding/destruction and imaging services. This has been his principal occupation for the past five years. He is part owner-operator of Gizmo Angus Farm, a 100-head cow/calf herd of registered Angus cattle kept on 450 acres of pasture. Mr. Gilmore previously served on the state leadership board of EscaRosa Young Farmers and Ranchers Committee and currently serves on the board of the Escambia County 4-H Foundation, and is a member of the Escambia County Farm Bureau.

Glen Strange is the owner/operator of Panhandle Growers, Inc., a 300-acre nursery operation serving landscapers and developers in southeastern states. This has been his principal occupation for the past five years. He is also the owner of North Florida Palms, a 100-acre family-operated palm tree farm, and prior owner of Coldwater Transport, a trucking company that delivered landscaping materials for Panhandle Growers, Inc. Mr. Strange is a member of the Florida Nursery, Growers and Landscape Association and the Alabama Nursery and Landscape Association.

Richard Terry owns and operates a row crop farm in Madison County. This has been his principal occupation for the past five years. He serves on the board for Madison County Farm Bureau (agricultural services). He previously served on the board of the Florida and Madison County Tobacco Warehouse (tobacco warehouse) and on the board of Farmers' Co-op, Inc. (farm and supply cooperative). Mr. Terry is past Chairman of the Board of Farm Credit of Northwest Florida.

Michael Thompson currently serves as president of Thompson Brothers Angus Farm, Inc. This has been his principal occupation for the past five years. His farm operation includes 2,000 acres where he produces registered Angus cattle breeding stock as well as 1,000 acres of hay and 900 acres of soybeans, peanuts and oats. He also provides custom farm-made feed to the livestock industry. Mr. Thompson serves as a director on the board of the Jackson County Farm Bureau.

R. Douglas Walker has been a self-employed farmer and president of Walker and Sons Farms, Inc. for over thirty years. This has been his principal occupation for the past five years. His farm operation consists of two family-owned dairy farms. The operation also produces corn, oats and rye grass for feed. He also has a pecan grove and a beef cattle cow/calf operation. Mr. Walker is also the manager for Walker and Sons Land Company and serves on the board of Southeast Milk, Inc. (dairy cooperative). Mr. Walker is Chairman of the Loan Committee.

David Yoder is the Territory Sales Manager for Valent, USA, a crop production firm. This has been his principal occupation for the past five years. His farm operation includes the ownership of Double Oaks Farm where he produces 400 acres of peanuts, corn, and small grains and maintains a 100-cow beef cattle herd. He is also the past managing partner for Blue Bird Farms, a 1,600 acre family farm that produces peanuts, bahia grass, cattle and timber. He is a class II member of the Wedgworth Leadership Institute that focuses on developing

leaders for Florida agriculture and natural resources. He is also a member of the Florida Farm Bureau and the Florida Cattlemen's Association.

Subject to approval by the Board, the Association currently may allow directors \$500 honoraria for attendance at meetings or special assignments with the exception of the Chairperson, who is allowed \$600 honoraria for board meetings. Total compensation paid to directors as a group was \$106,300 for 2021. Directors are paid \$100 for an Association related telephone conference. The Association's designated financial expert is paid \$750 for each board meeting attended. No director received more than \$5,000 in non-cash compensation during the year.

The following charts detail the number of meetings, compensation for board meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

DIRECTOR	Regular Board Meeting	
	Days Served	Compensation
Cindy Eade, <i>Chairperson</i>	10	\$ 6,000
D. Mark Fletcher, <i>Vice Chairman, Outside Director, Financial Expert</i>	10	5,100
Melvin Adams	5	2,500
Damon Boutwell	11	5,500
James R. Dean, <i>Outside Director</i>	11	5,500
Joseph M. Diamond	6	3,000
Ernest C. Fulford	11	5,500
Jacob Gilmore	5	2,500
Glen Strange	10	5,000
Richard Terry	11	5,500
Michael Thompson	11	5,500
R. Douglas Walker	11	5,500
David Yoder	5	2,500
Total		\$ 59,600

DIRECTOR	Other Official Activities	
	Days Served	Compensation
Cindy Eade, <i>Chairperson</i>	21	\$ 4,500
D. Mark Fletcher, <i>Vice Chairman, Outside Director, Financial Expert</i>	22	13,250
Melvin Adams	4	700
Damon Boutwell	26	5,000
James R. Dean, <i>Outside Director</i>	10	3,250
Joseph M. Diamond	9	1,650
Ernest C. Fulford	14	3,250
Jacob Gilmore	5	1,200
Glen Strange	11	2,650
Richard Terry	18	2,900
Michael Thompson	13	2,600
R. Douglas Walker	16	3,900
David Yoder	9	1,850
Total		\$ 46,700

The following tables report the compensation that directors received for serving on committees. These amounts are included in the table above reporting Other Official Activities.

DIRECTOR	Loan Committee	
		Compensation
R. Douglas Walker, <i>Chairman</i>	\$	1,500
Joseph M. Diamond		900
Ernest C. Fulford		1,350
Jacob Gilmore		150
Glen Strange		300
Michael Thompson		1,450
David Yoder		150
Total	\$	5,800

Compensation Committee	
DIRECTOR	Compensation
James R. Dean, <i>Chairman</i>	\$ 600
Melvin Adams	450
Cindy Eade	150
Jacob Gilmore	150
Glen Strange	450
Total	\$ 1,800

Audit Committee	
DIRECTOR	Compensation
D. Mark Fletcher, <i>Chairman</i>	\$ 1,850
Damon Boutwell	2,000
Cindy Eade	1,700
Richard Terry	2,000
David Yoder	550
Total	\$ 8,100

Name of Director	Committee Assignments
Cindy Eade, <i>Chairperson</i>	Executive
D. Mark Fletcher, <i>Vice Chairman, Outside Director, Financial Expert</i>	Audit, Executive
Damon Boutwell	Audit
James R. Dean, <i>Outside Director</i>	Compensation, Executive
Ernest Fulford	Loan
Jacob Gilmore	Compensation
Glen Strange	Compensation
Richard Terry	Audit
Michael Thompson	Loan
David Yoder	Audit
R. Douglas Walker	Loan, Executive

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the expense policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$10,663 for 2021, \$28,304 for 2020, and \$48,896 for 2019.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and elected directors to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors that require reporting per FCA regulations except as disclosed in Note 10.

Involvement in Certain Legal Proceedings

There were no matters that came to the attention of management or the Board of Directors regarding involvement of current directors or senior officers in specified legal proceedings that should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years that require reporting per FCA regulations.

Relationship with Independent Auditors

Pursuant to FCA regulation § 621.4 (d), the Association has changed its external auditor from PricewaterhouseCoopers LLP (PwC) to Elliott Davis, LLC effective for the 2021 audit year.

The Audit Committee of the Board of Directors made the decision to change qualified public accountants due to proposed substantial increases in audit fees by PwC. There have been no material disagreements with PwC or its previous opinions on the financial statements of the Association. Contact information for PwC is as follows: PricewaterhouseCoopers LLP, 1075 Peachtree Street NE, Suite 2600, Atlanta, Georgia 30309.

There were no changes in or material disagreements with our independent auditors, Elliott Davis, LLC, on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2021 were as follows:

	2021
<i>Independent Auditors</i>	
Elliott Davis, LLC	
Audit services	\$ 47,500
Total	\$ 47,500

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of Elliott Davis LLC dated March 10, 2022 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-850-526-4910 or writing John Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, Florida 32447, or accessing the website, www.farmcredit-fl.com.

The Association prepares an electronic version of the Annual Report that is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit Institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS Institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to shareholders.

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Northwest Florida, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

Elliott Davis, LLC (Elliott Davis), the Association's independent auditors for 2021, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with Elliott Davis the matters that are required to be discussed by Statement on Auditing Standards No. 114 (*The Auditor's Communication With Those Charged With Governance*).

The Committee discussed with Elliott Davis its independence from the Association. The Committee also reviewed the non-audit services provided by Elliott Davis and concluded that these services were not incompatible with maintaining Elliott Davis' independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2021. The foregoing report is provided by the following independent directors, who constitute the Committee:

/s/ D. Mark Fletcher, CPA
Chairman of the Audit Committee

Members of Audit Committee

Damon Boutwell
Richard Terry
David Yoder

March 10, 2022

Independent Auditor's Report

Board of Directors and Management
Farm Credit of Northwest Florida, ACA

Opinion

We have audited the consolidated financial statements of Farm Credit of Northwest Florida, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheet as of December 31, 2021, the related consolidated statements of comprehensive income, members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Farm Credit of Northwest Florida, ACA and its subsidiaries as of December 31, 2021, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Association, as of and for the years ended December 31, 2020 and 2019, were audited by other auditors, whose report, dated March 11, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Greenville, South Carolina
March 10, 2022

Consolidated Balance Sheets

(dollars in thousands)	December 31,		
	2021	2020	2019
Assets			
Loans	\$ 318,613	\$ 299,608	\$ 284,180
Allowance for loan losses	(4,968)	(4,912)	(4,529)
Net loans	313,645	294,696	279,651
Loans held for sale	503	362	614
Accrued interest receivable	2,386	2,268	2,719
Equity investments in other Farm Credit institutions	2,932	3,018	3,370
Premises and equipment, net	1,834	1,943	1,828
Other property owned	45	—	4
Accounts receivable	5,567	4,373	3,088
Other assets	102	91	115
Total assets	\$ 327,014	\$ 306,751	\$ 291,389
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 230,976	\$ 213,221	\$ 200,279
Accrued interest payable	494	471	571
Patronage refunds payable	6,410	5,932	4,523
Accounts payable	510	322	270
Advanced conditional payments	144	—	—
Other liabilities	2,013	2,166	1,771
Total liabilities	240,547	222,112	207,414
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	1,393	1,274	1,132
Retained earnings			
Allocated	36,420	36,420	37,244
Unallocated	48,654	46,945	45,599
Total members' equity	86,467	84,639	83,975
Total liabilities and members' equity	\$ 327,014	\$ 306,751	\$ 291,389

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31,		
	2021	2020	2019
Interest Income			
Loans	\$ 14,583	\$ 14,367	\$ 15,379
Other	22	20	59
Total interest income	14,605	14,387	15,438
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	5,347	5,505	6,568
Other	1	6	19
Total interest expense	5,348	5,511	6,587
Net interest income	9,257	8,876	8,851
Provision for (reversal of allowance for) loan losses	—	—	(207)
Net interest income after provision for (reversal of allowance for) loan losses	9,257	8,876	9,058
Noninterest Income			
Loan fees	94	115	53
Fees for financially related services	25	—	—
Patronage refunds from other Farm Credit institutions	5,446	4,321	3,030
Gains (losses) on sales of rural home loans, net	503	333	303
Gains (losses) on sales of premises and equipment, net	24	(1)	—
Gains (losses) on other transactions	22	(21)	(7)
Insurance Fund refunds	—	49	56
Other noninterest income	43	48	61
Total noninterest income	6,157	4,844	3,496
Noninterest Expense			
Salaries and employee benefits	5,160	4,611	4,144
Occupancy and equipment	235	251	327
Insurance Fund premiums	348	185	173
(Gains) losses on other property owned, net	(50)	4	(14)
Other operating expenses	1,643	1,473	1,510
Total noninterest expense	7,336	6,524	6,140
Net income	\$ 8,078	\$ 7,196	\$ 6,414
Other comprehensive income	—	—	—
Comprehensive income	\$ 8,078	\$ 7,196	\$ 6,414

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2018	\$ 1,050	\$ 40,321	\$ 42,435	\$ 83,806
Comprehensive income			6,414	6,414
Capital stock/participation certificates issued/(retired), net	82			82
Patronage distribution				
Cash			(3,250)	(3,250)
Retained earnings retired		(3,077)		(3,077)
Balance at December 31, 2019	\$ 1,132	\$ 37,244	\$ 45,599	\$ 83,975
Comprehensive income			7,196	7,196
Capital stock/participation certificates issued/(retired), net	142			142
Patronage distribution				
Cash			(5,850)	(5,850)
Retained earnings retired		(824)		(824)
Balance at December 31, 2020	\$ 1,274	\$ 36,420	\$ 46,945	\$ 84,639
Comprehensive income			8,078	8,078
Capital stock/participation certificates issued/(retired), net	119			119
Patronage distribution				
Cash			(6,369)	(6,369)
Balance at December 31, 2021	\$ 1,393	\$ 36,420	\$ 48,654	\$ 86,467

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 8,078	\$ 7,196	\$ 6,414
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	169	150	138
Amortization (accretion) of net deferred loan costs (fees)	(61)	(39)	25
Provision for (reversal of allowance for) loan losses	—	—	(207)
(Gains) losses on other property owned	(55)	(2)	(26)
(Gains) losses on sales of premises and equipment, net	(24)	1	—
(Gains) losses on sales of rural home loans, net	(503)	(333)	(303)
(Gains) losses on other transactions	(22)	21	7
Changes in operating assets and liabilities:			
Origination of loans held for sale	(20,375)	(15,815)	(12,256)
Proceeds from sales of loans held for sale, net	20,737	16,400	12,433
(Increase) decrease in accrued interest receivable	(118)	451	15
(Increase) decrease in accounts receivable	(1,194)	(1,285)	419
(Increase) decrease in other assets	(11)	24	25
Increase (decrease) in accrued interest payable	23	(100)	(33)
Increase (decrease) in accounts payable	188	52	(74)
Increase (decrease) in other liabilities	(128)	377	45
Total adjustments	(1,374)	(98)	208
Net cash provided by (used in) operating activities	6,704	7,098	6,622
Cash flows from investing activities:			
Net (increase) decrease in loans	(19,473)	(15,041)	3,826
(Increase) decrease in equity investments in other Farm Credit institutions	86	352	(24)
Purchases of premises and equipment	(60)	(266)	(45)
Proceeds from sales of premises and equipment	24	—	—
Proceeds from sales of other property owned	592	38	728
Net cash provided by (used in) investing activities	(18,831)	(14,917)	4,485
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	17,755	12,942	(4,578)
Net increase (decrease) in advanced conditional payments	144	—	—
Capital stock and participation certificates issued/(retired), net	119	142	82
Patronage refunds and dividends paid	(5,891)	(4,441)	(3,534)
Retained earnings retired	—	(824)	(3,077)
Net cash provided by (used in) financing activities	12,127	7,819	(11,107)
Net increase (decrease) in cash	—	—	—
Cash, beginning of period	—	—	—
Cash, end of period	\$ —	\$ —	\$ —
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	\$ 585	\$ 35	\$ 591
Estimated cash dividends or patronage distributions declared or payable	6,369	5,850	3,250
Supplemental information:			
Interest paid	\$ 5,325	\$ 5,610	\$ 6,620

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

- A. **Organization:** Farm Credit of Northwest Florida, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Bay, Calhoun, Escambia, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Okaloosa, Santa Rosa, Taylor, Wakulla, Walton, and Washington in the state of Florida.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate and service short-, intermediate- and long-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year-end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also 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 borrower capital at par or stated value, and (3) for other specified purposes. The Insurance

Fund is also available for discretionary uses 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 average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent 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 at 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 and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

- B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with 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 management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year financial statements have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Impaired loans are loans for which it is probable that all 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 instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty

interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, payments are applied against the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss." Loans are charged off at the time they are determined to be uncollectible.

In cases where the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) 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. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

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 as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB)

guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. 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 ratings 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 significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

- C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.
- D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess

of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in (Gains) Losses on Other Property Owned, Net in the Consolidated Statements of Comprehensive Income.

- E. **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. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

- F. **Investments:** The Association may hold investments as described below.

Equity Investments in Other Farm Credit System Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Other Investments

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within Noninterest Income on the Consolidated Statements of Comprehensive Income and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheets.

Investment Income

Dividends from Investments in Other Farm Credit Institutions are generally recorded as patronage income and included in Noninterest Income.

- G. **Voluntary 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 advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

- H. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include a defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans

Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

The Association also offers a FCBA supplemental 401(k) plan for certain key employees. This plan is nonqualified. Company contributions are expensed as funded.

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans

Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-district sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to employees, their beneficiaries and covered dependents during the years the employees render service necessary to become eligible for benefits.

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

Additional information may be found in Note 9 and in the Notes to the Annual Information Statement of the Farm Credit System.

- I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible 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 surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

- J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.
- K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity.

Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Additional information may be found in Note 8.

- L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and 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.

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.

Letters of credit are 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 third party.

- M. **Revenue Recognition:** The Association generates income from multiple sources.

Financial Instruments

The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in Noninterest Income when earned. Other types of noninterest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

Contracts with Customers

The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

Gains and Losses from Nonfinancial Assets

Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income or Noninterest Expense. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

- N. **Leases:** A contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration is generally considered a lease.

Lessee

Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that do. These contracts are then classified as either operating or finance leases.

In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options are assessed individually to determine if it is reasonably certain they will be exercised.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

ROU assets are included on the Consolidated Balance Sheets in Premises and Equipment for finance leases and Other Assets for operating leases. Lease liabilities are included in Other Liabilities on the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense is recognized over the lease term.

Lessor

The Association may act as lessor in certain contractual arrangements which relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of Comprehensive Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

Lease receivables and income are included in Accounts Receivable on the Consolidated Balance Sheets and Lease Income in the Consolidated Statements of Comprehensive Income.

- O. **Accounting Standards Updates (ASUs):** In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to Section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. Adoption of this guidance had no effect on the statements of financial condition and results of operations.

In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments were effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption of this guidance had no effect on the statements of financial condition and results of operations.

In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income

Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public business entities, the amendments in this Update were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Adoption of this guidance did not have a material impact on the statements of financial condition and results of operations.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance and amendments issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the

ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or

unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2021	2020	2019
Real estate mortgage	\$ 224,981	\$ 217,004	\$ 200,755
Production and intermediate-term	61,990	58,073	62,040
Loans to cooperatives	1,594	1,475	786
Processing and marketing	8,278	9,078	7,280
Farm-related business	5,446	3,706	3,907
Communication	—	—	1,337
Power and water/waste disposal	—	—	1,205
Rural residential real estate	15,280	9,229	5,827
International	1,044	1,043	1,043
Total loans	\$ 318,613	\$ 299,608	\$ 284,180

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed 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 may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

	December 31, 2021							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 16,195	\$ 54,913	\$ —	\$ 5,276	\$ 143	\$ —	\$ 16,338	\$ 60,189
Production and intermediate-term	4,884	12,659	12	421	—	—	4,896	13,080
Loans to cooperatives	1,597	—	—	—	—	—	1,597	—
Processing and marketing	8,097	—	—	—	—	—	8,097	—
Farm-related business	264	—	—	—	—	—	264	—
International	1,045	—	—	—	—	—	1,045	—
Total	\$ 32,082	\$ 67,572	\$ 12	\$ 5,697	\$ 143	\$ —	\$ 32,237	\$ 73,269

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 17,791	\$ 61,596	\$ —	\$ 343	\$ 192	\$ —	\$ 17,983	\$ 61,939
Production and intermediate-term	3,146	10,238	—	—	—	—	3,146	10,238
Loans to cooperatives	1,478	—	—	—	—	—	1,478	—
Processing and marketing	8,951	—	—	—	—	—	8,951	—
Farm-related business	264	—	—	—	—	—	264	—
International	1,045	—	—	—	—	—	1,045	—
Total	\$ 32,675	\$ 71,834	\$ —	\$ 343	\$ 192	\$ —	\$ 32,867	\$ 72,177

	December 31, 2019							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 18,906	\$ 49,165	\$ —	\$ 393	\$ 195	\$ —	\$ 19,101	\$ 49,558
Production and intermediate-term	3,457	6,307	—	—	—	—	3,457	6,307
Loans to cooperatives	790	—	—	—	—	—	790	—
Processing and marketing	7,121	—	—	—	—	—	7,121	—
Farm-related business	264	—	—	—	—	—	264	—
Communication	1,340	—	—	—	—	—	1,340	—
Power and water/waste disposal	1,211	—	—	—	—	—	1,211	—
International	1,045	—	—	—	—	—	1,045	—
Total	\$ 34,134	\$ 55,472	\$ —	\$ 393	\$ 195	\$ —	\$ 34,329	\$ 55,865

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

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,				December 31,		
	2021	2020	2019		2021	2020	2019
Real estate mortgage:				Communication:			
Acceptable	95.58%	96.58%	96.40%	Acceptable	—%	—%	100.00%
OAEM	1.51	2.16	1.58	OAEM	—	—	—
Substandard/doubtful/loss	2.91	1.26	2.02	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		—%	—%	100.00%
Production and intermediate-term:				Power and water/waste disposal:			
Acceptable	97.47%	97.28%	93.30%	Acceptable	—%	—%	—%
OAEM	0.94	1.07	0.82	OAEM	—	—	100.00
Substandard/doubtful/loss	1.59	1.65	5.88	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		—%	—%	100.00%
Loans to cooperatives:				Rural residential real estate:			
Acceptable	100.00%	100.00%	100.00%	Acceptable	99.56%	99.09%	98.31%
OAEM	—	—	—	OAEM	—	0.05	0.12
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	0.44	0.86	1.57
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Processing and marketing:				International:			
Acceptable	100.00%	100.00%	100.00%	Acceptable	100.00%	100.00%	100.00%
OAEM	—	—	—	OAEM	—	—	—
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Farm-related business:				Total loans:			
Acceptable	100.00%	70.69%	70.89%	Acceptable	96.37%	96.60%	95.15%
OAEM	—	—	—	OAEM	1.25	1.78	1.71
Substandard/doubtful/loss	—	29.31	29.11	Substandard/doubtful/loss	2.38	1.62	3.14
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

	December 31, 2021					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 189	\$ 143	\$ 332	\$ 226,461	\$ 226,793	
Production and intermediate-term	114	1	115	62,390	62,505	
Loans to cooperatives	—	—	—	1,595	1,595	
Processing and marketing	—	—	—	8,295	8,295	
Farm-related business	—	—	—	5,461	5,461	
Rural residential real estate	—	—	—	15,305	15,305	
International	—	—	—	1,045	1,045	
Total	\$ 303	\$ 144	\$ 447	\$ 320,552	\$ 320,999	

	December 31, 2020					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ —	\$ 347	\$ 347	\$ 218,428	\$ 218,775	
Production and intermediate-term	65	236	301	58,214	58,515	
Loans to cooperatives	—	—	—	1,476	1,476	
Processing and marketing	—	—	—	9,096	9,096	
Farm-related business	—	—	—	3,723	3,723	
Rural residential real estate	—	—	—	9,247	9,247	
International	—	—	—	1,044	1,044	
Total	\$ 65	\$ 583	\$ 648	\$ 301,228	\$ 301,876	

December 31, 2019						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 570	\$ 582	\$ 1,152	\$ 201,659	\$	202,811
Production and intermediate-term	65	288	353	62,287		62,640
Loans to cooperatives	—	—	—	786		786
Processing and marketing	—	—	—	7,310		7,310
Farm-related business	222	—	222	3,698		3,920
Communication	—	—	—	1,338		1,338
Power and water/waste disposal	—	—	—	1,206		1,206
Rural residential real estate	—	—	—	5,844		5,844
International	—	—	—	1,044		1,044
Total	\$ 857	\$ 870	\$ 1,727	\$ 285,172	\$	286,899

Nonperforming assets (including related accrued interest) and related credit quality statistics were as follows:

December 31,						
	2021	2020	2019			
Nonaccrual loans:						
Real estate mortgage	\$ 329	\$ 509	\$ 786			
Production and intermediate-term	94	722	1,005			
Rural residential real estate	28	35	42			
Total	\$ 451	\$ 1,266	\$ 1,833			
Accruing restructured loans:						
Real estate mortgage	\$ 1,530	\$ 1,583	\$ 1,659			
Production and intermediate-term	123	130	168			
Total	\$ 1,653	\$ 1,713	\$ 1,827			
Accruing loans 90 days or more past due:						
Total	\$ —	\$ —	\$ —			
Total nonperforming loans	\$ 2,104	\$ 2,979	\$ 3,660			
Other property owned	45	—	4			
Total nonperforming assets	\$ 2,149	\$ 2,979	\$ 3,664			
Nonaccrual loans as a percentage of total loans	0.14%	0.42%	0.64%			
Nonperforming assets as a percentage of total loans and other property owned	0.67%	0.99%	1.29%			
Nonperforming assets as a percentage of capital	2.49%	3.52%	4.36%			

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

December 31,						
	2021	2020	2019			
Impaired nonaccrual loans:						
Current as to principal and interest	\$ 244	\$ 675	\$ 922			
Past due	207	591	911			
Total	\$ 451	\$ 1,266	\$ 1,833			
Impaired accrual loans:						
Restructured	\$ 1,653	\$ 1,713	\$ 1,827			
90 days or more past due	—	—	—			
Total	\$ 1,653	\$ 1,713	\$ 1,827			
Total impaired loans	\$ 2,104	\$ 2,979	\$ 3,660			
Additional commitments to lend	\$ —	\$ —	\$ —			

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2021			Year Ended December 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 143	\$ 193	\$ 11	\$ 182	\$ 14
Production and intermediate-term	24	30	6	31	3
Total	\$ 167	\$ 223	\$ 17	\$ 213	\$ 17
With no related allowance for credit losses:					
Real estate mortgage	\$ 1,716	\$ 1,781	\$ —	\$ 2,186	\$ 170
Production and intermediate-term	193	230	—	246	19
Rural residential real estate	28	70	—	36	3
Total	\$ 1,937	\$ 2,081	\$ —	\$ 2,468	\$ 192
Total impaired loans:					
Real estate mortgage	\$ 1,859	\$ 1,974	\$ 11	\$ 2,368	\$ 184
Production and intermediate-term	217	260	6	277	22
Rural residential real estate	28	70	—	36	3
Total	\$ 2,104	\$ 2,304	\$ 17	\$ 2,681	\$ 209

	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 264	\$ 263	\$ 83	\$ 288	\$ 21
Production and intermediate-term	369	381	80	404	30
Total	\$ 633	\$ 644	\$ 163	\$ 692	\$ 51
With no related allowance for credit losses:					
Real estate mortgage	\$ 1,828	\$ 1,878	\$ —	\$ 2,000	\$ 147
Production and intermediate-term	483	657	—	528	38
Rural residential real estate	35	72	—	38	3
Total	\$ 2,346	\$ 2,607	\$ —	\$ 2,566	\$ 188
Total impaired loans:					
Real estate mortgage	\$ 2,092	\$ 2,141	\$ 83	\$ 2,288	\$ 168
Production and intermediate-term	852	1,038	80	932	68
Rural residential real estate	35	72	—	38	3
Total	\$ 2,979	\$ 3,251	\$ 163	\$ 3,258	\$ 239

	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 263	\$ 252	\$ 2	\$ 269	\$ 13
Production and intermediate-term	591	594	83	603	28
Total	\$ 854	\$ 846	\$ 85	\$ 872	\$ 41
With no related allowance for credit losses:					
Real estate mortgage	\$ 2,182	\$ 2,188	\$ —	\$ 2,228	\$ 104
Production and intermediate-term	582	724	—	594	28
Rural residential real estate	42	74	—	43	2
Total	\$ 2,806	\$ 2,986	\$ —	\$ 2,865	\$ 134
Total impaired loans:					
Real estate mortgage	\$ 2,445	\$ 2,440	\$ 2	\$ 2,497	\$ 117
Production and intermediate-term	1,173	1,318	83	1,197	56
Rural residential real estate	42	74	—	43	2
Total	\$ 3,660	\$ 3,832	\$ 85	\$ 3,737	\$ 175

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2020	\$ 3,561	\$ 948	\$ 235	\$ —	\$ —	\$ 151	\$ 17	\$ 4,912
Charge-offs	(50)	(175)	—	—	—	—	—	(225)
Recoveries	254	26	1	—	—	—	—	281
Provision for loan losses	(261)	172	3	—	—	87	(1)	—
Balance at December 31, 2021	\$ 3,504	\$ 971	\$ 239	\$ —	\$ —	\$ 238	\$ 16	\$ 4,968
Balance at December 31, 2019	\$ 3,204	\$ 983	\$ 192	\$ 21	\$ 19	\$ 93	\$ 17	\$ 4,529
Charge-offs	(1)	(30)	—	—	—	—	—	(31)
Recoveries	138	169	11	—	—	96	—	414
Provision for loan losses	149	(103)	32	(21)	(19)	(38)	—	—
Loan type reclassification	71	(71)	—	—	—	—	—	—
Balance at December 31, 2020	\$ 3,561	\$ 948	\$ 235	\$ —	\$ —	\$ 151	\$ 17	\$ 4,912
Balance at December 31, 2018	\$ 3,184	\$ 1,035	\$ 166	\$ 22	\$ 23	\$ 84	\$ 15	\$ 4,529
Charge-offs	(199)	(319)	—	—	—	—	—	(518)
Recoveries	247	394	44	—	—	40	—	725
Provision for loan losses	(28)	(127)	(18)	(1)	(4)	(31)	2	(207)
Balance at December 31, 2019	\$ 3,204	\$ 983	\$ 192	\$ 21	\$ 19	\$ 93	\$ 17	\$ 4,529
Allowance on loans evaluated for impairment:								
Individually	\$ 11	\$ 6	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 17
Collectively	3,493	965	239	—	—	238	16	4,951
Balance at December 31, 2021	\$ 3,504	\$ 971	\$ 239	\$ —	\$ —	\$ 238	\$ 16	\$ 4,968
Individually	\$ 83	\$ 80	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 163
Collectively	3,478	868	235	—	—	151	17	4,749
Balance at December 31, 2020	\$ 3,561	\$ 948	\$ 235	\$ —	\$ —	\$ 151	\$ 17	\$ 4,912
Individually	\$ 2	\$ 83	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 85
Collectively	3,202	900	192	21	19	93	17	4,444
Balance at December 31, 2019	\$ 3,204	\$ 983	\$ 192	\$ 21	\$ 19	\$ 93	\$ 17	\$ 4,529
Recorded investment in loans evaluated for impairment:								
Individually	\$ 1,859	\$ 217	\$ —	\$ —	\$ —	\$ 28	\$ —	\$ 2,104
Collectively	224,934	62,288	15,351	—	—	15,277	1,045	318,895
Balance at December 31, 2021	\$ 226,793	\$ 62,505	\$ 15,351	\$ —	\$ —	\$ 15,305	\$ 1,045	\$ 320,999
Individually	\$ 2,092	\$ 852	\$ —	\$ —	\$ —	\$ 35	\$ —	\$ 2,979
Collectively	216,683	57,663	14,295	—	—	9,212	1,044	298,897
Balance at December 31, 2020	\$ 218,775	\$ 58,515	\$ 14,295	\$ —	\$ —	\$ 9,247	\$ 1,044	\$ 301,876
Individually	\$ 2,445	\$ 1,173	\$ —	\$ —	\$ —	\$ 42	\$ —	\$ 3,660
Collectively	200,366	61,467	12,016	1,338	1,206	5,802	1,044	283,239
Balance at December 31, 2019	\$ 202,811	\$ 62,640	\$ 12,016	\$ 1,338	\$ 1,206	\$ 5,844	\$ 1,044	\$ 286,899

*Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was \$7,920, \$8,200, and \$7,539 at December 31, 2021, 2020, and 2019, respectively. Fees paid for such guarantee commitments totaled less than \$1 for each of the periods presented. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) 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 following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the period presented. There were no new TDRs that occurred during the years ended December 31, 2020 and December 31, 2019; therefore, no tables are presented for those periods.

Outstanding Recorded Investment	Year Ended December 31, 2021					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Pre-modification:						
Real estate mortgage	\$ 71	\$ —	\$ —	\$ 71		
Production and intermediate-term	31	—	—	31		
Total	\$ 102	\$ —	\$ —	\$ 102		
Post-modification:						
Real estate mortgage	\$ 71	\$ —	\$ —	\$ 71	\$ —	
Production and intermediate-term	31	—	—	31	—	
Total	\$ 102	\$ —	\$ —	\$ 102	\$ —	

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents the outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Year Ended December 31,		
	2021	2020	2019
Defaulted troubled debt restructurings:			
Real estate mortgage	\$ 198	\$ —	\$ —
Total	\$ 198	\$ —	\$ —

The following table provides information at each period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table.

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2021	2020	2019	2021	2020	2019
Real estate mortgage	\$ 1,593	\$ 1,583	\$ 1,659	\$ 63	\$ —	\$ —
Production and intermediate-term	173	534	750	50	404	582
Total loans	\$ 1,766	\$ 2,117	\$ 2,409	\$ 113	\$ 404	\$ 582
Additional commitments to lend	\$ —	\$ —	\$ —			

Note 4 — Investments

Equity Investments in Other Farm Credit Institutions

Equity investments in other Farm Credit System Institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as required by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$2,371 for 2021, \$2,459 for 2020 and \$2,792 for 2019. The Association owned 0.92 percent of the issued stock of the Bank as of December 31, 2021 net of any reciprocal investment. As of that date, the Bank's assets totaled \$39.3 billion and shareholders' equity totaled \$2.3 billion. The

Bank's earnings were \$486 million for 2021. In addition, the Association had investments of \$561 related to other Farm Credit Institutions at December 31, 2021.

Note 5 — Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2021	2020	2019
Land	\$ 559	\$ 559	\$ 562
Buildings and improvements	2,815	2,791	2,785
Furniture and equipment	1,570	1,605	1,365
	4,944	4,955	4,712
Less: accumulated depreciation	3,110	3,012	2,884
Total	\$ 1,834	\$ 1,943	\$ 1,828

Note 6 — Debt**Notes Payable to AgFirst Farm Credit Bank**

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, 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, 2021, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan, based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA, which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.45 percent for LIBOR-based loans and 1.55 percent for Prime-based loans, and the weighted average remaining maturities were 3.1 years and 2.8 years, respectively, at December 31, 2021. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.51 percent, and the weighted average remaining maturity was 12.1 years at December 31, 2021. The weighted-average interest rate on all interest-bearing notes payable was 2.38 percent and the weighted-average remaining maturity was 10.9 years at December 31, 2021. Variable rate and fixed rate notes payable represent approximately -19.98 percent and 119.98 percent, respectively, of total notes payable at December 31, 2021. The variable rate percentage was negative due to variable rate credits that exceeded variable rate borrowings. Even though loans to borrowers are match funded by the notes payable to the Bank, they are not funded dollar for dollar. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds" and is recorded on the Association's general ledger as a debit, offsetting the notes payable to the Bank. At December 31, 2021, this resulted in a net variable rate notes payable debit and the -19.98 percent measure.

The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

- A. Protected Borrower Stock:** Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.
- B. Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's Bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of \$1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the secondary market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. 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 retirement of the corresponding stock or participation certificates.

- C. Regulatory Capitalization Requirements and Restrictions:** An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

The capital regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio which includes an unallocated retained earnings (URE)

and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvment, unallocated retained earnings, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain

limitations, and allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
- The URE and UREE component of the tier 1 leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvment less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios and the Association's capital ratios as of December 31, 2021, 2020 and 2019:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2021	2020	219
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	25.69%	27.22%	28.20%
Tier 1 Capital	6.0%	2.5%	8.5%	25.69%	27.22%	28.20%
Total Capital	8.0%	2.5%	10.5%	26.95%	28.47%	29.46%
Permanent Capital	7.0%	0.0%	7.0%	26.02%	27.56%	28.56%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	26.51%	28.38%	29.20%
URE and UREE Leverage	1.5%	0.0%	1.5%	26.21%	28.21%	28.32%

* Includes fully phased-in capital conservation buffers which became effective January 1, 2020.

** The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.

If the capital ratios fall below the minimum regulatory 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.

- D. Description of Equities:** The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the Bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2021:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
C Common/Voting	No	237,544	\$ 1,188
C Participation Certificates/Nonvoting	No	41,082	205
Total Capital Stock and Participation Certificates		278,626	\$ 1,393

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for

any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the Bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met.

At December 31, 2021, allocated members' equity consisted of \$36,420 of nonqualified retained surplus.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, or C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified

patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Classes A and D Preferred Stocks, Classes A, B, and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's Bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Classes A and D Preferred Stock
2. Classes A, B and C Common Stock, and Classes B and C Participation Certificates
3. Holders of allocated surplus evidenced by qualified written notices of allocation
4. Holders of allocated surplus evidenced by nonqualified written notices of allocation
5. All unallocated surplus issued after January 1, 1995, shall be distributed to past and present Patrons on a patronage basis
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates

Note 8 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's equity investments in the Bank and other Farm Credit institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1

Assets held in trust funds related to deferred compensation plans are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. These funds may be redeemed on any business day on which the New York Stock Exchange is open for regular trading.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

The Association had no Level 2 assets or liabilities measured at fair value on a recurring basis.

Level 3

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through

foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

There were no Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

		December 31, 2021				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	6	\$ 6	\$ —	\$ —	\$ 6
Recurring Assets	\$	6	\$ 6	\$ —	\$ —	\$ 6
Liabilities:						
Recurring Liabilities	\$	—	\$ —	\$ —	\$ —	\$ —
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	150	\$ —	\$ —	\$ 150	\$ 150
Other property owned		45	—	—	50	50
Nonrecurring Assets	\$	195	\$ —	\$ —	\$ 200	\$ 200
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	—	\$ —	\$ —	\$ —	\$ —
Loans		313,998	—	—	310,660	310,660
Other Financial Assets	\$	313,998	\$ —	\$ —	\$ 310,660	\$ 310,660
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	230,976	\$ —	\$ —	\$ 229,021	\$ 229,021
Other Financial Liabilities	\$	230,976	\$ —	\$ —	\$ 229,021	\$ 229,021

		December 31, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>						
Assets:						
Assets held in trust funds	\$	5	\$ 5	\$ —	\$ —	\$ 5
Recurring Assets	\$	5	\$ 5	\$ —	\$ —	\$ 5
Liabilities:						
Recurring Liabilities	\$	—	\$ —	\$ —	\$ —	\$ —
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	\$	470	\$ —	\$ —	\$ 470	\$ 470
Other property owned		—	—	—	—	—
Nonrecurring Assets	\$	470	\$ —	\$ —	\$ 470	\$ 470
<u>Other Financial Instruments</u>						
Assets:						
Cash	\$	—	\$ —	\$ —	\$ —	\$ —
Loans		294,588	—	—	297,444	297,444
Other Financial Assets	\$	294,588	\$ —	\$ —	\$ 297,444	\$ 297,444
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	213,221	\$ —	\$ —	\$ 215,237	\$ 215,237
Other Financial Liabilities	\$	213,221	\$ —	\$ —	\$ 215,237	\$ 215,237

December 31, 2019					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 3	\$ 3	\$ –	\$ –	\$ 3
Recurring Assets	\$ 3	\$ 3	\$ –	\$ –	\$ 3
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 769	\$ –	\$ –	\$ 769	\$ 769
Other property owned	4	–	–	4	4
Nonrecurring Assets	\$ 773	\$ –	\$ –	\$ 773	\$ 773
Other Financial Instruments					
Assets:					
Cash	\$ –	\$ –	\$ –	\$ –	\$ –
Loans	279,496	–	–	279,346	279,346
Other Financial Assets	\$ 279,496	\$ –	\$ –	\$ 279,346	\$ 279,346
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 200,279	\$ –	\$ –	\$ 200,480	\$ 200,480
Other Financial Liabilities	\$ 200,279	\$ –	\$ –	\$ 200,480	\$ 200,480

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain

inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 200	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

* Ranges for this type of input are not useful because each collateral property is unique.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 9 — Employee Benefit Plans

The Association participates in three District sponsored qualified benefit plans. These plans include a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance (FCBA) Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan (401(k) Plan), the FCBA 401(k) Plan. The risks of participating in these multiemployer plans are different from single employer plans in the following aspects:

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number.
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were \$369 for 2021, \$283 for 2020, and \$233 for 2019. At December 31, 2021, 2020, and 2019, the total liability balance for the FAP Plan was \$39,135, \$114,449, and \$129,713, respectively. The FAP Plan was 96.17 percent, 89.63 percent, and 87.55 percent funded to the projected benefit obligation as of December 31, 2021, 2020, and 2019, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of

their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Comprehensive Income were \$107 for 2021, \$100 for 2020, and \$103 for 2019. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was \$209,599, \$219,990, and \$209,531 at December 31, 2021, 2020, and 2019, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$0.50 for each \$1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$315, \$278, and \$246 for the years ended December 31, 2021, 2020, and 2019, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

In addition to the multiemployer plans described above, the Association sponsors a nonqualified supplemental 401(k) plan. Expenses of this nonqualified plan included in noninterest expenses were \$3, \$2, and \$2 for 2021, 2020, and 2019, respectively.

Note 10 — 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 schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2021 amounted to \$7,448. During 2021, \$4,085 of new loans and advances were made and repayments totaled \$3,189. In the opinion of management, none of these loans outstanding at December 31, 2021 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

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 Balance Sheets 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. At December 31, 2021, \$38,120 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of \$29 which is included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2021, standby letters of credit outstanding totaled \$139 with expiration dates ranging from January 19, 2022 to December 14, 2024. The maximum potential amount of future payments that may be required under these guarantees was \$139.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Deferred:			
Federal	—	—	—
State	—	—	—
Total provision (benefit) for income taxes	\$ —	\$ —	\$ —

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2021	2020	2019
Federal tax at statutory rate	\$ 1,696	\$ 1,511	\$ 1,347
State tax, net	—	—	—
Patronage distributions	(1,338)	(1,402)	(1,139)
Tax-exempt FLCA earnings	(303)	(104)	(163)
Change in valuation allowance	(31)	(6)	(66)
Deferred tax rate change	—	—	—
Other	(24)	1	21
Provision (benefit) for income taxes	\$ —	\$ —	\$ —

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	\$ 249	\$ 251	\$ 256
Net operating loss – carryforward	591	580	593
Loan origination fees	—	—	—
Nonaccrual loan interest	20	65	50
Valuation allowance on other property owned	—	—	—
Gross deferred tax assets	860	896	899
Less: valuation allowance	(813)	(844)	(850)
Gross deferred tax assets, net of valuation allowance	47	52	49
Deferred income tax liabilities:	(47)	(52)	(49)
Gross deferred tax liability	—	—	—
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

At December 31, 2021, deferred income taxes have not been provided by the Association on approximately \$56 of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$813, \$844 and \$850 as of December 31, 2021, 2020 and 2019, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2021 for which liabilities have been established. The Association recognizes interest and penalties,

if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2018 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,227	\$ 2,326	\$ 2,395	\$ 2,309	\$ 9,257
Provision for (reversal of allowance for) loan losses	—	—	—	—	—
Noninterest income (expense), net	(1,115)	(928)	(1,021)	1,885	(1,179)
Net income	\$ 1,112	\$ 1,398	\$ 1,374	\$ 4,194	\$ 8,078

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,203	\$ 2,257	\$ 2,192	\$ 2,224	\$ 8,876
Provision for (reversal of allowance for) loan losses	—	—	—	—	—
Noninterest income (expense), net	(937)	(986)	(1,119)	1,362	(1,680)
Net income	\$ 1,266	\$ 1,271	\$ 1,073	\$ 3,586	\$ 7,196

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 2,243	\$ 2,186	\$ 2,225	\$ 2,197	\$ 8,851
Provision for (reversal of allowance for) loan losses	(36)	(115)	(44)	(12)	(207)
Noninterest income (expense), net	(982)	(954)	(954)	246	(2,644)
Net income	\$ 1,297	\$ 1,347	\$ 1,315	\$ 2,455	\$ 6,414

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 10, 2022, which was the date the financial statements were issued.



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