# 2021 FARM CREDIT ANNUAL REPORT

# re|CONNECTING


FARM CREDIT
MIDATLANTIC

# 2021 FARM CREDIT ANNUAL REPORT

# re|CONNECTING

“Human connections are deeply nurtured in the field of shared story.”

—Jean Houston, Author

# President's Message

## re|CONNECTING

Thomas H. Truitt, Jr.
Chief Executive Officer

As humans, we are designed by nature to seek out and foster connections with others. Family, friends, co-workers, neighbors — all of us have a group or two of people we can count on to help us when we are in need. They lend advice, make us laugh, and get us through those tough times when we don't feel like connecting at all.

The COVID-19 pandemic sure threw a wrench in our natural tendency to form connections, forcing us to find new ways to stay in touch with our friends, family, and you — our valued members. Though this past year didn't bring the end of the pandemic (as much as we all wish it did), it did bring us the ability to re-connect with each other, and for that, we're beyond thankful.

For your Association, 2021 also brought some new milestones. In April, we were proud to distribute a record-breaking $54.5 million in patronage. At the end of the summer, we hit $3 billion in accruing loan volume. We finished the year stronger than we've ever been, and well-positioned to continue to fulfill our mission and serve our members and communities in exciting new ways.

As we look toward the future, our focus continues to be on how we can better enhance your experience with us. Back in September, your Board signed a letter of intent to merge with our neighbors to the north, AgChoice Farm Credit. We're excited about this new connection we're forming, the opportunities that lie ahead on the horizon, and what they mean for your Association. For more information about the merger, please visit **mafc.com/merger**.

Like the quote above mentions, stories are at the core of what allows humans to connect. Your stories make up the Farm Credit story, which is why I think the connection we have with our members is so unique. If there is anything we can do to help you as you write your next chapter, please don't hesitate to email me directly at **ceo@mafc.com** with your ideas or suggestions.

This past year was definitely an integral one in the story of MidAtlantic Farm Credit, and I have no doubt 2022 will be just as memorable.

On behalf of all of us here at Farm Credit, thank you for allowing us to be part of your story.

We look forward to connecting with you soon!

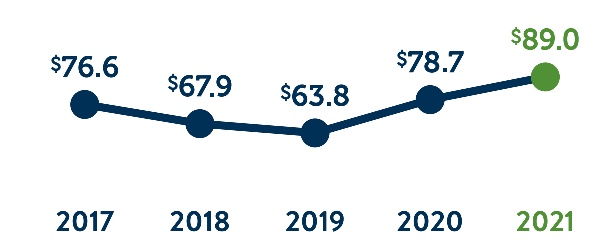
Ty

Tom Truitt
CEO, MidAtlantic Farm Credit

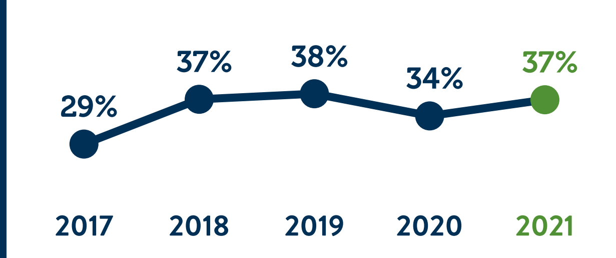

FELLING
PIONEER

# FINANCIAL | HIGHLIGHTS

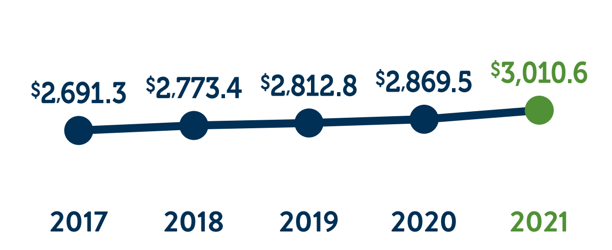
## Net Income | $89.0 MILLION



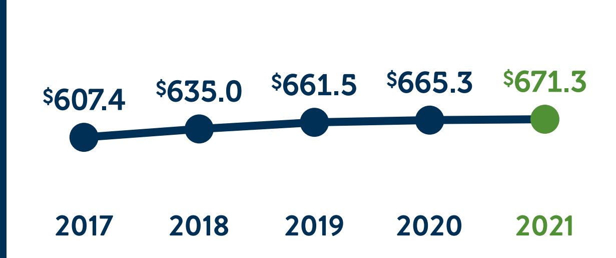

## Operating Expenses as a Percentage of Net Interest and Non-Interest Income | 37%



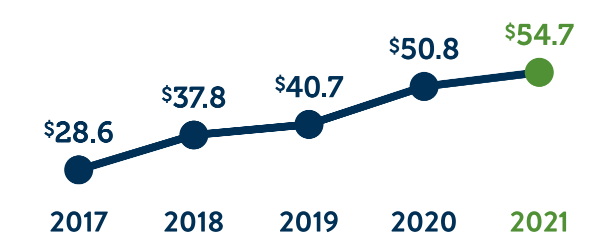

## Net Loans | $3,010.6 MILLION



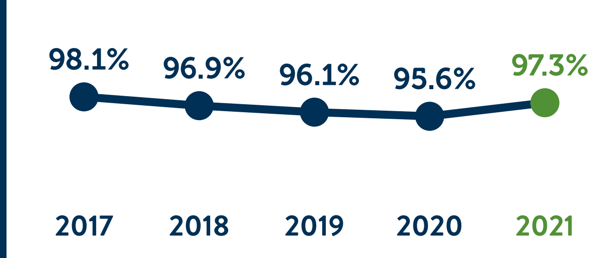

## Members' Equity | $671.3 MILLION




## Member Cash Distributions | $54.7 MILLION




## Acceptable Credit Quality | 97.3%



# Consolidated FIVE-YEAR SUMMARY of Selected FINANCIAL DATA

| (dollars in thousands) | 2021 | 2020 | December 31, 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| Cash | **$ 344** | $ 228 | $ 3,508 | $ 4,376 | $ 4,690 |
| Loans | **3,040,890** | 2,905,638 | 2,844,993 | 2,803,479 | 2,717,226 |
| Allowance for loan losses | **(30,280)** | (36,131) | (32,197) | (30,090) | (25,949) |
| Net loans | **3,010,610** | 2,869,507 | 2,812,796 | 2,773,389 | 2,691,277 |
| Equity investments in other Farm Credit institutions | **27,177** | 30,257 | 32,825 | 32,074 | 31,277 |
| Other property owned | **1,368** | 1,661 | 1,415 | 622 | 240 |
| Other assets | **80,784** | 80,465 | 66,855 | 71,419 | 70,010 |
| Total assets | **$ 3,120,283** | $2,982,118 | $2,917,399 | $2,881,880 | $2,797,494 |
| Notes payable to AgFirst Farm Credit Bank* | **$ 2,338,902** | $2,229,163 | $2,192,656 | $2,181,496 | $2,121,161 |
| Accrued interest payable and other liabilities with maturities of less than one year | **110,090** | 87,631 | 63,198 | 65,434 | 68,972 |
| Total liabilities | **2,448,992** | 2,316,794 | 2,255,854 | 2,246,930 | 2,190,133 |
| Capital stock and participation certificates | **11,814** | 11,400 | 10,974 | 10,744 | 10,550 |
| Retained earnings | | | | | |
| Allocated | **407,650** | 405,105 | 409,174 | 388,255 | 365,603 |
| Unallocated | **252,262** | 249,314 | 241,769 | 236,149 | 231,530 |
| Accumulated other comprehensive income (loss) | **(435)** | (495) | (372) | (198) | (322) |
| Total members' equity | **671,291** | 665,324 | 661,545 | 634,950 | 607,361 |
| Total liabilities and members' equity | **$ 3,120,283** | $2,982,118 | $2,917,399 | $2,881,880 | $2,797,494 |
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 77,724** | $ 76,069 | $ 73,577 | $ 71,266 | $ 69,479 |
| Provision for (reversal of allowance for) loan losses | **(5,000)** | 5,000 | 4,000 | 4,000 | 2,000 |
| Noninterest income (expense), net | **6,269** | 7,663 | (5,805) | 624 | 9,088 |
| Net income | **$ 88,993** | $ 78,732 | $ 63,772 | $ 67,890 | $ 76,567 |
| **Key Financial Ratios** | | | | | |
| Rate of return on average: | | | | | |
| Total assets | **2.99%** | 2.70% | 2.22% | 2.43% | 2.82% |
| Total members' equity | **13.15%** | 11.67% | 9.74% | 10.84% | 13.02% |
| Net interest income as a percentage of average earning assets | **2.64%** | 2.64% | 2.61% | 2.59% | 2.60% |
| Net (chargeoffs) recoveries to average loans | **(0.03)%** | (0.04)% | (0.07)% | 0.01% | (0.02)% |
| Total members' equity to total assets | **21.51%** | 22.31% | 22.68% | 22.03% | 21.71% |
| Debt to members' equity (:1) | **3.65** | 3.48 | 3.41 | 3.54 | 3.61 |
| Allowance for loan losses to loans | **1.00%** | 1.24% | 1.13% | 1.07% | 0.95% |
| Permanent capital ratio | **19.75%** | 20.69% | 20.91% | 20.26% | 19.67% |
| Common equity tier 1 capital ratio | **19.53%** | 20.31% | 19.69% | 18.84% | 18.55% |
| Tier 1 capital ratio | **19.53%** | 20.31% | 19.69% | 18.84% | 18.55% |
| Total regulatory capital ratio | **20.70%** | 21.66% | 21.81% | 21.09% | 20.44% |
| Tier 1 leverage ratio | **20.91%** | 21.68% | 20.78% | 19.88% | 19.64% |
| Unallocated retained earnings (URE) and URE equivalents leverage ratio | **20.79%** | 21.67% | 20.75% | 19.39% | 17.89% |
| **Net Income Distribution** | | | | | |
| Estimated patronage refunds: | | | | | |
| Cash | **$ 80,500** | $ 51,500 | $ 17,000 | $ 20,000 | $ 18,517 |
| Nonqualified retained earnings | **622** | 17,695 | 41,251 | 43,589 | 52,282 |

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

# REPORT of MANAGEMENT

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of MidAtlantic Farm Credit, ACA in accordance with accounting principles generally accepted in the United States of America. 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 MidAtlantic Farm Credit, 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.

Brian L. Boyd
Chairman of the Board

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
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.

Thomas H. Truitt, Jr.
Chief Executive Officer

Brian E. Rosati
Chief Financial Officer

March 10, 2022

# Management's DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS

*(dollars in thousands, except as noted)*

## GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of MidAtlantic Farm Credit, 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" contained 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 Delaware, Maryland, Pennsylvania, Virginia and West Virginia. 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 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 available 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.mafc.com***, by calling 1-888-339-3334, or by writing Brian E. Rosati, Chief Financial Officer, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, MD, 21157-3022. 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 internet, 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 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 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 their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary widely 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

The Mid-Atlantic region, similar to the national and global economies, was greatly impacted by the COVID-19 global pandemic in 2020, and had a rebound in 2021. The economy in the beginning of the year continued to recover from the pandemic, but was slowed due to the various variant strands of the COVID-19 virus. As the year ended the economy was opening back up and employees were returning to work, which had a positive impact on the unemployment rate for the region. During the past year, Virginia ranked nationally 16th at 3.2 percent, West Virginia ranked nationally 22nd at 3.7 percent, Maryland and Delaware ranked nationally 37th at 5.0 percent, and Pennsylvania ranked nationally 41st at 5.4 percent in the 2021 U.S. Unemployment Rate rankings.

The COVID-19 pandemic initially hit urban areas harder than rural areas, where most of our stockholders live and have their operations. In 2021, the job market had bounced back as the economy was opening back up, and a greater need for workers developed quickly creating a shortage of employees to fill many open positions. The impact on the local economy resulted in the unemployment rate dropping from the 2020 highs of the pandemic, which puts the unemployment rates in our states of operation in line with or below the national average.

The impact of the economic recovery differed between communities based on the structure of the economy, as well as the policies and decisions of local government as to when and how to open up economies safely. The federal COVID-19 stimulus package offered financial support to households and businesses through stimulus checks and additional federal unemployment subsidies, which created additional spending power and demand for consumers. This growth of consumer spending power, impact of the pandemic, and the reduced amount of employees has created a supply chain issue, and in turn has delayed the ability for farmers to get products to consumers. Improvement in the supply chain and the continued strength of consumer spending should be beneficial for farmers in the region as consumers have the ability to spend more on locally sourced foods, organics, wine, and other local agricultural products.

However, many factors shape the performance of the agricultural sector, and consumer spending is just one of them. The Mid-Atlantic agricultural sector in 2022 will most likely be impacted by the pace of economic recovery from the COVID-19 pandemic, the supply chain delays, the ability to find workers and movement in commodity prices. The potential impact of policies with the current administration in Washington add a level of uncertainty, and with the possibility of continued inflation and rising interest rates, this could lead to additional negative impacts to economic growth in our region. There are many components that contributed to recovery of commodity prices including changes in yields, increased demands, increased exports and decreasing tariffs as trade deals are still being implemented and executed.

Despite the overall economic challenge, aided by federal stimulus programs, 2021 was a solid year for farmers in our region, but the pandemic impact, inflation concerns and supply chain issues create economic uncertainty heading into 2022. The global economy is still recovering from the impact of the COVID-19 pandemic, interest rates are expected to rise, there will be increased input costs due to inflation, supply chain issues are expected to linger, the possibility of an additional variant surge, and less government stimulus could have a negative impact on commodity prices and overall GDP.

Overall, 2022 is expected to continue to have supply chain challenges and employee shortages at the start, but eventually correct towards the end of the year, and farmers should start to see smoother operations as the year progresses. Generally, commodity prices are expected to remain at current levels, interest rates are expected to start to rise from their current lows, and consumer spending is expected to remain strong. Final policy decisions in Washington on various issues remain somewhat of an unknown regarding the ultimate impact on 2022 performance.

Acceptable credit quality continued to show improvement coming out of the pandemic, due to federal assistance and stronger than expected crop prices, which led to an increase in overall credit quality compared to 2020. Crop yields varied considerably by geography and commodity, but were stronger than historical results. Poultry farmers saw a slight increase in demand for new poultry barn housing in 2021, but there is still concern for potential risks in this industry for the region.

A significant number of our borrowers or their family members involved in the farming operation are actively employed in off-farm professions that were not hit as hard by the COVID-19 pandemic. The federal stimulus assistance as well as the Association's geographic proximity to several major metropolitan areas reduced the impact of unemployment in the region compared to the rest of the nation.

Generally, available credit to farmers and related businesses has been quite adequate with some commercial banks reentering or continuing to expand their market presence in the agricultural sector after having abruptly curtailed or exited the industry following the 2008 financial collapse. The number of active borrowers has increased 3.3 percent from 12,195 at the end of 2020 to 12,610 at the end of 2021. A knowledgeable lending staff enhanced with newly hired employees, combined with the inherent value of patronage paid under the cooperative structure, have positioned the Association to compete effectively to serve the financing needs for agriculture in the Association's territory, while retaining current members and their business relationships.

For the year ended December 31, 2021, as the economy was rebounding from the impact of the COVID-19 pandemic, credit quality of the loan portfolio improved as Acceptable Loans including Other Assets Especially Mentioned (OAEM) comprised over 97 percent of the portfolio. During 2021, nonperforming assets as a percentage of total loans decreased by .25 percent, and decreased over eleven percent as a percentage of capital. The Loan Loss Provision for 2021, 2020, and 2019 of ($5,000), $5,000, and $4,000, the increase in credit quality and drop in non-performing loans resulted in a reduction in the need for Loan Loss Reserves, and resulted in a current year reversal of Loan Loss Provision. Farmers have been able to take advantage of favorable pricing and lock in higher grain prices, which have been favorable to this sector. The crop yields for the 2021 growing season are expected to be strong to help mitigate any lingering COVID-19 adverse impact on demand. Conversely, higher grain prices are generally unfavorable for the protein sector. Industries tied to housing such as forestry, sawmills, sod, and landscape nurseries have benefited from the low interest rates and demand for more suburban homes. Over time, the higher inputs are expected to ultimately either be passed on to the consumer or production will be cut to ensure that the supply produced will clear the market at prices that will generate an acceptable profit.

Some of the sectors of the Association's portfolio which have some reliance on off-farm income have had some challenges due to the pandemic, but for the most part were not part of the economy most heavily impacted by the shutdowns. In addition, some of the borrowers classified as loan type "rural residential real estate," which are principally rural home loans, could be negatively impacted by the economy, which has put some pressure on this segment of the portfolio. The credit quality of the portfolio is strong and has improved due to the favorable commodity pricing and government stimulus, which has limited some of the potential risk of deterioration of credit quality. There certainly remains the potential risk of future deterioration based on the factors mentioned, as well as what impact the Administration in Washington might have on the areas within the Association's footprint. The Association has exposure to the poultry commodity in its portfolio, and in 2021 there has been improvement in turnaround times for flock placements by integrators and increasing poultry activity in our area, which has strengthened the credit quality of this portion of the portfolio. The Association's poultry farmers are susceptible to the effects of avian influenza on their flocks which could cause some financial stress to these operators and, accordingly, to their loans with the Association. Significant preparatory measures have been taken; to date, no reports of the virus have been reported in the Association's territory. The impact of COVID-19 on the dairy sector had a slight decrease in pricing, but overall pricing has stabilized in 2021, after experiencing lower prices for a number of years. Increased costs of feed could be a problem for the industry, and as a result the Association could realize some deterioration in this portion of the portfolio.

During 2021, the Association continued to target certain areas of our business with the goal of increasing market share. As in prior years, in 2021 the Association continued expansion of its farm equipment financing program, Farm Credit ***EXPRESS*** (FCE), which provides an efficient electronic loan application process for farm equipment financing. The success of this program has been further realized with members who joined the Association with an equipment loan expanding their borrowing needs with a mortgage or operating loan. At the end of 2021, the Association was providing this service on a per transaction fee basis for twenty associations, both within and outside of the AgFirst District. During 2021, over five thousand six hundred notes were closed by our FCE team for approximately $232 million, including over $40 million of loans booked to the Association. During 2021, there were over three thousand new members to the Farm Credit System as a result of the FCE program. Continued efforts are being made to expand services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio. FCE also has an equipment leasing program which provides an additional option to borrowers. The leasing program included over $2 million of additional volume booked to the Association in 2021.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate term loans and long-term real estate mortgage loans through numerous product types. The diversification of Association loan volume by type for each of the past three years is shown below.

| Loan Type | December 31, 2021 | | 2020 | | 2019 | |
|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | |
| Real estate mortgage | $ 2,000,305 | 65.79% | $ 1,866,567 | 64.24% | $ 1,771,690 | 62.28% |
| Production and intermediate term | 758,322 | 24.94 | 737,853 | 25.39 | 796,599 | 28.00 |
| Processing and marketing | 81,753 | 2.69 | 88,494 | 3.05 | 78,001 | 2.74 |
| Rural residential real estate | 57,922 | 1.90 | 50,612 | 1.74 | 41,931 | 1.47 |
| Farm-related business | 53,564 | 1.76 | 48,852 | 1.68 | 49,109 | 1.73 |
| Communication | 42,407 | 1.39 | 58,449 | 2.01 | 62,134 | 2.18 |
| International | 24,969 | 0.82 | 24,956 | 0.86 | 24,944 | 0.88 |
| Loans to cooperatives | 20,923 | 0.69 | 27,209 | 0.94 | 17,437 | 0.61 |
| Power and water/waste disposal | 725 | 0.02 | 2,646 | 0.09 | 3,148 | 0.11 |
| Total | $ 3,040,890 | 100.00% | $ 2,905,638 | 100.00% | $ 2,844,993 | 100.00% |

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by region for the past three years is as follows:

| Region | December 31, 2021 | 2020 | 2019 |
|---|---|---|---|
| DMV (DelMarVa) | 36% | 36% | 37% |
| Potomac | 27 | 27 | 27 |
| Keystone | 25 | 23 | 22 |
| Corporate | 12 | 14 | 14 |
| Total | 100% | 100% | 100% |

Corporate includes the Association's participation loans purchased, corporate loans, employee loans, as well as all nonaccruing loans.

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 loan portfolio are shown below. The predominant commodities are cash grain/crops, poultry, landlords/lessors of real estate, and dairy, which together constitute 62 percent of the entire portfolio.

| Commodity Group | December 31, 2021 | | 2020 | | 2019 | |
|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | |
| Cash Grain/Crops | $ 727,915 | 24% | $ 682,482 | 23% | $ 664,263 | 23% |
| Poultry | 599,049 | 20 | 602,940 | 21 | 605,756 | 21 |
| Landlords/Lessors of Real Estate | 274,974 | 9 | 249,302 | 9 | 241,447 | 8 |
| Dairy | 268,928 | 9 | 249,696 | 9 | 245,375 | 9 |
| Livestock/Animal Specialties | 245,284 | 8 | 215,266 | 7 | 217,150 | 8 |
| Fruits & Vegetables | 202,735 | 7 | 190,625 | 7 | 197,981 | 7 |
| Equine | 195,591 | 6 | 195,778 | 7 | 188,333 | 7 |
| Timber/Forestry | 97,392 | 3 | 93,781 | 3 | 85,582 | 3 |
| Nurseries/Greenhouses | 91,434 | 3 | 83,362 | 3 | 84,825 | 3 |
| Other | 337,588 | 11 | 342,406 | 11 | 314,281 | 11 |
| Total | $ 3,040,890 | 100% | $ 2,905,638 | 100% | $ 2,844,993 | 100% |

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio is well diversified from both a commodity and number of producers perspective. Further, many of the Association's members are diversified within their enterprise which also reduces overall risk exposure. Demand for poultry, milk and prices of field grains are some of the factors affecting the price of these commodities. While the Association has continued to experience demand for large loans over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The average daily balance in gross loan volume for twelve months ended December 31, 2021, continues to be well diversified with no significant industry or producer concentration.

During 2021, the Association continued its activity in the buying and selling of loan participations within the Farm Credit System (FCS) as well as external to the FCS. This program provides an important vehicle to the Association by enabling it to further spread credit risk and enhance portfolio diversification while also affording an opportunity of strengthening its capital position through the generation of interest and fee income.

Loan Participations Purchased and Sold are summarized as follows:

| | December 31, | | |
|---|---|---|---|
| **Loan Participations** | **2021** | **2020** | **2019** |
| | *(dollars in thousands)* | | |
| Participations Purchased | $ 241,338 | $ 276,342 | $ 249,848 |
| Participations Sold | (109,106) | (93,543) | (75,988) |
| Total | $ 132,232 | $ 182,799 | $ 173,860 |

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 year ended December 31, 2021.

The Association sells qualified long-term mortgage loans into the secondary market. For the periods ended December 31, 2021, 2020, and 2019, the Association originated loans for resale totaling $66,268, $67,913, and $55,951, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2021, 2020, and 2019, the Association had loans amounting to $200, $357, and $473, respectively, which 100 percent were guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2021, 2020, and 2019, the balance of these loans was $76,460, $82,366, and $84,076, respectively.

## 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 with some contingent of staff working remotely and continues to allow customer branch visits.

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. As of December 31, 2021, the Association had $25.5 million of these loans outstanding. In addition, through December 31, 2021, the volume of such loans that have been submitted for forgiveness from the SBA since the start of the program was $25.3 million. The Association recorded approximately $750 thousand and $730 thousand in loan related fee income for the years ended December 31, 2021 and 2020.

## CLIMATE CHANGE

Agricultural production is and always has been vulnerable to weather events and climate change. The USDA has recognized that the changing climate presents threats to U.S. and global agricultural production and rural communities. The impact of climate change including its effect on weather is, and will continue to be, a challenge for agricultural producers. Among the risks of climate change are:

- rising average temperatures,
- more frequent and severe storms,
- more forest fires, and
- extremes in flooding and droughts.

However, risks associated with climate change are mitigated, to some degree, by U.S. agricultural producers' ability to navigate changing industry dynamics from numerous perspectives, including trade, government policy, consumer preferences and weather. Producers regularly adopt new technologies, agronomic practices and financial strategies in response to evolving trends to ensure their competitiveness.

## MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. For all periods referenced in the financial statements, the Association had no loans, investments or commitments to invest in Rural America Bonds.

In partnership with other System entities and community banks, we provide funding to rural community facilities. We also make investments in certain Rural Business Investment Companies (RBICs). Our investments in RBICs focus on small and middle market companies that create jobs and prosperity in rural America. The Association signed four commitments for total investments up to $1 million, and as of December 31, 2021 has funded $303 thousand to these investment companies.

## 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 continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes 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 and loan terms

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 cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens 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 original 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. Appraisals are required for loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our 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 | 97.32% | 95.62% | 96.12% |
| Substandard | 2.68 | 4.38 | 3.88 |
| Doubtful | – | – | – |
| Loss | – | – | – |
| Total | 100.00% | 100.00% | 100.00% |

*Nonperforming Assets*

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing the majority of loans classified as high-risk. The High-risk Assets, including accrued interest, are detailed below:

| High-risk Assets | December 31, 2021 | 2020 | 2019 |
|---|---|---|---|
| | *(dollars in thousands)* | | |
| Nonaccrual loans | $ 37,648 | $ 43,524 | $ 46,344 |
| Restructured loans | 27,307 | 36,812 | 31,184 |
| Accruing loans 90 days past due | 220 | – | 70 |
| Total high-risk loans | 65,175 | 80,336 | 77,598 |
| Other property owned | 1,368 | 1,661 | 1,415 |
| Total high-risk assets | $ 66,543 | $ 81,997 | $ 79,013 |
| **Ratios** | | | |
| Nonaccrual loans to total loans | 1.24% | 1.50% | 1.63% |
| High-risk assets to total assets | 2.13% | 2.75% | 2.71% |

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 $5,876 or 13.50 percent in 2021, after having decreased $2,820 or 6.08 percent in 2019, mainly due to some large accounts becoming current in 2021. Of the $37,648 in nonaccrual volume at December 31, 2021, $14,953 or 39.72 percent, compared to 41.54 percent and 45.30 percent at December 31, 2020 and 2019, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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 for any of the three years reported.

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

| Allowance for Loan Losses Activity | Year Ended December 31, 2021 | 2020 | 2019 |
|---|---|---|---|
| | *(dollars in thousands)* | | |
| Balance at beginning of year | $ 36,131 | $ 32,197 | $ 30,090 |
| Charge-offs: | | | |
| Real estate mortgage | (1,039) | (355) | (1,266) |
| Production and intermediate term | (21) | (682) | (628) |
| Agribusiness | – | (94) | (52) |
| Rural residential real estate | (57) | – | – |
| Total charge-offs | (1,117) | (1,131) | (1,946) |
| Recoveries: | | | |
| Real estate mortgage | 155 | 39 | 13 |
| Production and intermediate term | 111 | 26 | 22 |
| Agribusiness | – | – | 2 |
| Rural residential real estate | – | – | 16 |
| Total recoveries | 266 | 65 | 53 |
| Net (charge-offs) recoveries | (851) | (1,066) | (1,893) |
| Provision for (reversal of allowance for) loan losses | (5,000) | 5,000 | 4,000 |
| Balance at end of year | $ 30,280 | $ 36,131 | $ 32,197 |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period | (0.03)% | (0.04)% | (0.07)% |

The allowance for loan losses by loan type for the most recent three years is as follows:

| Allowance for Loan Losses by Type | December 31, 2021 | 2020 | 2019 |
|---|---|---|---|
| | *(dollars in thousands)* | | |
| Production and intermediate term | $ 15,941 | $ 18,333 | $ 17,841 |
| Real estate mortgage | 12,282 | 15,617 | 12,754 |
| Agribusiness | 1,691 | 1,719 | 998 |
| Rural residential real estate | 278 | 323 | 441 |
| Communication | 66 | 115 | 139 |
| International | 22 | 22 | 22 |
| Power and water/waste disposal | – | 2 | 2 |
| Total allowance | $ 30,280 | $ 36,131 | $ 32,197 |

The 2021 reversal in allowance for loan losses was recorded to better align the allowance with the risk of the portfolio, as nonaccrual volume and charge-offs have been declining over recent years.

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 | 1.00% | 1.24% | 1.13% |
| Nonaccrual loans | 80.43% | 83.01% | 69.47% |

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 Interest Income*

Net interest income was $77,724, $76,069, and $73,577 in 2021, 2020, and 2019, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

**Change in Net Interest Income:**

| | Volume* | Rate | Nonaccrual Income | Total |
|---|---|---|---|---|
| | | *(dollars in thousands)* | | |
| **12/31/21 - 12/31/20** | | | | |
| Interest income | $ 3,461 | $(10,887) | $ 822 | $ (6,604) |
| Interest expense | 1,602 | (9,380) | (481) | (8,259) |
| Change in net interest income | $ 1,859 | $ (1,507) | $ 1,303 | $ 1,655 |
| **12/31/20 - 12/31/19** | | | | |
| Interest income | $ 4,659 | $(16,400) | $ 1,892 | $ (9,849) |
| Interest expense | 1,199 | (13,266) | (274) | (12,341) |
| Change in net interest income | $ 3,460 | $ (3,134) | $ 2,166 | $ 2,492 |

**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:

| | For the Year Ended December 31, | | | Percentage Increase/(Decrease) | |
|---|---|---|---|---|---|
| **Noninterest Income** | **2021** | **2020** | **2019** | **2021/ 2020** | **2020/ 2019** |
| | *(dollars in thousands)* | | | | |
| Loan fees | $ 1,805 | $ 1,915 | $ 1,346 | (5.74) % | 42.27 % |
| Fees for financially related services | 3,834 | 3,817 | 3,165 | 0.45 | 20.60 |
| Lease income | 140 | 140 | 191 | 0.00 | (26.70) |
| Patronage refunds from other Farm Credit Institutions | 48,213 | 42,934 | 29,423 | 12.30 | 45.92 |
| Gains (losses) on sales of rural home loans, net | 1,414 | 1,393 | 1,197 | 1.51 | 16.37 |
| Gains (losses) on sales of premises and equipment, net | 320 | 219 | 127 | 46.12 | 72.44 |
| Gains (losses) on other transactions | 259 | 222 | 284 | 16.67 | (21.83) |
| Insurance fund refunds | – | 553 | 589 | (100.00) | (6.11) |
| Other noninterest income (expense) | 54 | 63 | 50 | (14.29) | 26.00 |
| Total noninterest income | $ 56,039 | $ 51,256 | $ 36,372 | 9.33 % | 40.92 % |

Noninterest income for each of the three years listed included a Special Patronage declaration from AgFirst, in which the cash was received by the Association the following year of declaration. The Association's share of the Special Patronage was $30,929, $25,898, and $12,781 for the years ended December 31, 2021, 2020, and 2019, respectively.

In prior years the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligation, had assets exceeding the secure base amount as defined by the Farm Credit Act. As a result of the excess, FCSIC made distributions to the Farm Credit System Banks and certain associations, and retired the remaining related Financial Assistance Corporation outstanding shares. The Association's share of this distribution was $553, and $589 for the years ended December 31, 2020, and 2019. There was no such distribution for the Association in 2021.

The Association participated in the Paycheck Protection Program (PPP), which supported approximately $8,329 and $17,221 in members' loan volume for the years ended December 31, 2021 and 2020. The program generated approximately $750 and $730 of related loan fees in 2021 and 2020, which are included in the loan fees above.

Fees for financially related services are related principally to the crop insurance program and the Farm Credit ***EXPRESS*** program; the Association's income will vary depending upon product usage and commissions earned, and transactions relative to the equipment financing program.

*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, 2021 | 2020 | 2019 | Percentage Increase/(Decrease) 2021/2020 | 2020/2019 |
|---|---|---|---|---|---|
| | *(dollars in thousands)* | | | | |
| Salaries and employee benefits | $ 26,484 | $ 23,717 | $ 22,876 | 11.67 % | 3.68 % |
| Post retirement benefits | 8,040 | 6,596 | 6,015 | 21.89 | 9.66 |
| Occupancy and equipment | 2,027 | 1,994 | 2,533 | 1.65 | (21.28) |
| Insurance Fund premiums | 3,543 | 2,089 | 1,951 | 69.60 | 7.07 |
| (Gains) losses on other property owned, net | (17) | 404 | 29 | 104.21 | (1,293.10) |
| Other operating expenses | 9,327 | 8,262 | 8,713 | 12.89 | (5.18) |
| Total noninterest expense | $ 49,404 | $ 43,062 | $ 42,117 | 14.73 % | 2.24 % |

Noninterest expense increased $6,342 or 14.73 percent for the year ended December 31, 2021, as compared to the same period in 2020, and increased $945 or 2.24 percent in 2020 compared to 2019.

Salaries and employee benefits increased $2,767 or 11.67 percent in 2021 as compared to 2020. This increase is primarily attributable to 2021 salary adjustments and related employee benefit increases, as well as a slight increase in the number of employees. Excluding the impact of the deferral of salaries and employee benefits expenses in accordance with the Accounting Standards Codification 310, salaries and benefits expense increased $2,302 or 8.34 percent.

Post retirement benefits increased $1,444 or 21.89 percent for the year ended December 31, 2021, as compared to the same period in 2020, and increased $581 or 9.66 percent in 2020 compared to 2019. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information.

The Insurance Fund premium expense increased $1,454 or 69.60 percent in 2021 as compared to 2020. The unfavorable change resulted from increased adjusted insured debt outstanding and increased insurance premium in 2021. The insurance premium was .16 percent of loans (16 basis points) for 2021 as compared to .08 percent of loans (8 basis points) for the first half of 2020, and .11 percent of loans (11 basis points) for the second half of 2020.

Occupancy and equipment and Other operating expenses increased a total of $1,098 or 10.71 percent from 2020 to 2021, which is due to disruptions in 2020 caused by the COVID-19 pandemic primarily related to (a) postponed events, building improvements, and restricted business travel, as well as increased hardware and software expenses and public and member relations expenses. Comparing these expenses in 2021 to 2019, Occupancy and equipment and Other operating expenses increased a total of $108 or .96 percent, which is more in line with expenses prior to the COVID-19 pandemic.

The Association's efficiency ratio, which is calculated as Operating Expenses as a percentage of Net interest income plus Total noninterest income continues to be among the lowest in the AgFirst District and below the average efficiency ratio for the District. If the Association's Operating Expenses averaged the District average, then Operating Expenses would be approximately $392 higher which would result in a decrease of the same amount to Income before income taxes, and, accordingly, would adversely impact the patronage distribution which the Association makes to stockholders.

*Income Taxes*

The Association recorded a provision for income taxes of $366 for the year ended December 31, 2021, as compared to a provision of $531 for 2020 and a provision of $60 for 2019. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *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 months ended December 31 are shown in the following table:

| Key Results of Operations Comparisons | For the Year Ended 12/31/21 | 12/31/20 | 12/31/19 |
|---|---|---|---|
| Return on average assets | 2.99 % | 2.70 % | 2.22 % |
| Return on average members' equity | 13.15 % | 11.67 % | 9.74 % |
| Net interest income as a percentage of average earning assets | 2.64 % | 2.64 % | 2.61 % |
| Net (charge-offs) recoveries to average loans | (0.03)% | (0.04)% | (0.07)% |

A key factor in maintaining and growing the net income for future years will be an increase in Acceptable loan volume, continued improvement in net interest income and controlling loan losses, while effectively managing noninterest income and noninterest expense. There are many external economic factors that could negatively impact certain sections of the Associations portfolio, and could impact the Association until economic stability is restored.

The return on average assets and return on average members' equity for 2021 compared to 2020 increased primarily as a result of an increase in net income. Higher net interest income resulted in a higher return on average earnings assets in 2021 and 2020, as compared to 2019. See *Allowance for Loan Losses, Net Interest Income, Noninterest Income*, and *Noninterest Expense* sections for further discussion.

In 2021, the Association recorded a reversal of allowance for loan losses of $5,000 and net (charge-offs) recoveries of ($851). This was a decrease compared to 2020 and 2019 when the provision for loan losses totaled $5,000 and $4,000, and net (charge-offs) recoveries aggregated ($1,066) and ($1,893), respectively.

The past three years have been favorably impacted by the receipt of Special Patronage distributions from AgFirst Farm Credit Bank which totaled $30,929, $25,898, and $12,781 in 2021, 2020, and 2019, respectively. The $30,929 was the Association's share of a $274 million Special Patronage distribution from the Bank. The fiscal stability of the Association enables it, during these somewhat uncertain times, to continue to emphasize its goals to: consistently meet the needs of our membership by providing quality loan products, generate earnings which are sufficient to fund operations, assure the adequate capitalization of the Association, and achieve an acceptable rate of return for stockholders. To meet these goals, the Association will continue its efforts of attracting and retaining high quality, competitively priced, loan volume while effectively managing credit risk in the entire loan portfolio. The Association uses an Enterprise Risk Management (ERM) process which is expected to further aid the Association in its management of both short and long-term risks. The Association will continue to actively evaluate new or modified products, including recommendations and initiatives offered in conjunction with System projects.

## LIQUIDITY AND FUNDING SOURCES

*Liquidity and Funding*

The principal source of funds for the Association is the borrowing relationship 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 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."

Total notes payable to the Bank at December 31, 2021, was $2,338,902 as compared to $2,229,163 at December 31, 2020 and $2,192,656 at December 31, 2019. The increase of 4.92 percent compared to December 31, 2020 was attributable to the increase in loan volume, net of the Association's increase in members' equity attributable to net income. Since the end of 2017, loans have increased $323,664 or 11.91 percent while Members' Equity has increased $63,930 or 10.53 percent. The average volume of outstanding notes payable to the Bank was $2,249,026 and $2,209,045 for the years ended December 31, 2021 and 2020, 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 notes payable to the Bank. The Association's participation in the Farmer Mac agreements, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association has a net settlement agreement with CoBank, ACB to settle transactions between the two institutions daily to an aggregate line of credit of $100 million. The Association had no other lines of credit from third party financial institutions 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 key driver in establishing a funds management strategy. The Association's loan portfolio includes 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 Sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

*Future of LIBOR*

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 outstanding variable-rate financial instruments tied to LIBOR at December 31, 2021:

| *(dollars in millions)* | Due in 2022 | Due in 2023 (On or Before June 30) | Due After June 30, 2023 | Total |
|---|---|---|---|---|
| Investments | $ – | $ – | $ – | $ – |
| Loans | 16,961 | 6,615 | 199,721 | 223,297 |
| Total Assets | $ 16,961 | $ 6,615 | $ 199,721 | $ 223,297 |
| Note Payable to AgFirst Farm Credit Bank | $ 12,864 | $ 5,017 | $ 151,483 | $ 169,364 |
| Total Liabilities | $ 12,864 | $ 5,017 | $ 151,483 | $ 169,364 |

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, 100 percent of loans maturing after June 30, 2023 contain fallback language.

*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 access capital of 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.

## 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 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/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2021, nor are any planned for 2022, that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2021, increased .90 percent to $671,291 from the December 31, 2020 total of $665,324. At December 31, 2020, total members' equity increased .57 percent from the December 31, 2019 total of $661,545. The 2021 increase was primarily attributed to net income, net of various patronage related distributions and the net impact of capital stock/participation certificates issued/retired. See statement "Consolidated Statements of Changes in Members' Equity" in this Annual Report for further details.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. 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 and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

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 revolvement, unallocated retained earnings, 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, 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 assets less regulatory deductions to Tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to Tier 1 capital.

The following sets forth the regulatory capital ratios:

| Ratio | 2021 Minimum Requirement with Capital Conservation Buffer | Capital Ratios as of 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Risk-adjusted ratios: | | | | |
| CET1 Capital Ratio | 7.00% | 19.53% | 20.31% | 19.69% |
| Tier 1 Capital Ratio | 8.50% | 19.53% | 20.31% | 19.69% |
| Total Capital Ratio | 10.50% | 20.70% | 21.66% | 21.81% |
| Permanent Capital Ratio | 7.00% | 19.75% | 20.69% | 20.91% |
| Non-risk-adjusted: | | | | |
| Tier 1 Leverage Ratio | 5.00% | 20.91% | 21.68% | 20.78% |
| UREE Leverage Ratio | 1.50% | 20.79% | 21.67% | 20.75% |

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.

For all periods presented, the Association exceeded the minimum regulatory standard for all of the applicable ratios.

The changes in the Association's permanent capital at December 31, 2021 was attributed to net income, net of patronage distribution, an increase in the Association's capital stock and participation certificates outstanding, and an increase in loan volume outstanding.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Notes to 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 excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) nonpatronage sourced income. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $80,500 in 2021, $51,500 in 2020, $25,250, of which $8.25 million was an additional 2019 mid-year patronage distribution made with FCA prior approval, in 2019, and distributed cash relative to patronage refunds, dividends paid and retained earnings retired of $54,716, $50,811 and $40,712 to members in 2021, 2020, and 2019, respectively.

## YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

- Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250,000 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young, Beginning and Small farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to serve the financing needs of YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit.

The following table outlines the number of borrowers, the number of YBS loans in the portfolio and the loan volume outstanding for the past two years.

**As of December 31, 2021**
*(dollars in thousands)*

| | Number of Borrowers | Number of Loans | Amount of Loans |
|---|---|---|---|
| Young | 2,670 | 4,066 | $ 542,081 |
| Beginning | 4,078 | 5,692 | 972,088 |
| Small | 7,046 | 9,808 | 1,098,714 |

**As of December 31, 2020**
*(dollars in thousands)*

| | Number of Borrowers | Number of Loans | Amount of Loans |
|---|---|---|---|
| Young | 2,617 | 3,982 | $ 495,928 |
| Beginning | 3,956 | 5,497 | 858,206 |
| Small | 6,997 | 9,679 | 978,701 |

For 2021, the Association's quantitative goals were to book 500 new business relationships, which meet one or more of the established criteria for designation as Young, Beginning, or Small, and to maintain or increase its overall levels of lending to Young, Beginning and Small business relationships as represented by overall percentages of the 2017 USDA Census numbers (the most recent numbers available) in MidAtlantic's territory.

The goal for booking new business relationships (BEs) was achieved as evidenced by the following table:

| | |
|---|---|
| New BEs | 1,457 |
| Young BEs | 419 or 28.8% of the total |
| Beginning BEs | 730 or 50.1% of the total |
| Small BEs | 926 or 63.6% of the total |

The overall goal of 500 new business relationships or greater being designated either Young, Beginning or Small was achieved as 1,056 or 72.5 percent qualified as Young, Beginning or Small.

The Association experienced a small increase in the overall number of farmers served within its territory with increases occurring across all three farmer categories (comparisons are against USDA data for each category).

| | USDA 2017 Census | % YBS USDA | MAFC territory 12/31/20 | MAFC as % USDA 12/31/20 | MAFC territory 12/31/21 | MAFC as % USDA 12/31/21 |
|---|---|---|---|---|---|---|
| Total Farmers | 30,740 | 100.0% | 9,986 | 32.5% | 9,791 | 31.9% |
| Young | 5,283 | 17.2% | 2,467 | 46.7% | 2,520 | 47.7% |
| Beginning | 9,402 | 30.6% | 3,709 | 39.4% | 3,833 | 40.8% |
| Small | 25,590 | 83.2% | 6,500 | 25.4% | 6,532 | 25.5% |

There are slight differences between the USDA Census data (Census) and the Association's YBS information as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information includes young farmers up to age 35.
- The Census shows years on present farms up to nine years, whereas the Association's YBS information includes 10 years or less for a beginning farmer.
- The Census data is based upon Number of farms, whereas the Association's YBS information is based on Number of loans.

The working definitions of Young and Beginning include a criteria of borrower age and years farming while Small is defined by the level of agricultural sales. With the passage of time, existing borrowers will move out of these two categories regardless of any operational changes or lending activities.

The Association successfully implemented a new program in 2008, **StartRight** that focuses on the needs of Young, Beginning, and Small farmers. Since implementation, over $295 million of **StartRight** loans have been booked, with

$13.8 million outstanding as of year-end 2021 and over $4 million of new money in 2021.

The **StartRigh**t program includes several outreach efforts to Young, Beginning, and Small (YBS) farmers. This outreach includes a resource center for YBS farmers, found at ***www.mafc.com***. One part of this program is AgBiz Masters, an online and in-person educational program that has been in place since 2010. AgBiz Masters focuses on everything from macroeconomics to marketing to the importance of creating a business plan, and is offered to both members and prospects fitting this segment. You can read more about **StartRight** on the Association's website, ***www.mafc.com***.

In addition to our **StartRight** program, MidAtlantic also supports a Trade Credit program, Farm Credit ***EXPRESS***. This program, supported through local equipment dealers within our territory, has further enhanced the YBS service of the Association. The Farm Credit ***EXPRESS*** program has also helped to increase sales by local equipment dealers, which promotes economic growth in the rural communities. The Farm Credit ***EXPRESS*** program has been expanded whereby the Association processes equipment financing applications for all of the other associations in the AgFirst District which enables those associations to further serve YBS borrowers in those territories.

The Association has the goal of serving YBS through extensive outreach programs that includes activities in marketing, education, training, and financial support. The Association continues previously sponsored outreach/sponsorship activities in which the Association participated for the purpose of promoting and supporting YBS efforts, as well as incorporated new outreach/sponsorships to continue building the Association's commitment to YBS. The Association's website, ***www.mafc.com***, contains an entire section of information and resources specifically applicable to YBS visitors to the site.

The **Farm Fresh Financing** program offers financing and credit options to local food organizations and "new generation" farmers, a term refers to producers who distribute their products through local food channels.

The Association continues its participation in specific credit programs and partnerships that we have developed to help small farmers, young farmers and farmers just starting out. It includes programs offered by the Farm Service Agency (FSA), such as guaranteed and direct loans to qualifying borrowers. The Association has earned the distinction of a "preferred lender," the highest status designated by FSA.

In addition to FSA guaranteed loans, the Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers, and also participates in a number of State lending programs that promote the agriculture industry and environmental stewardship. The Association also offers flexible financing options in-house for qualifying borrowers.

The Association remains fully committed to serving the financing needs of YBS borrowers and will continue to evaluate its programs and efforts in order to be even more effective in 2022. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the board of directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning, and Small farmers.

**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.

## NOTICE OF SIGNIFICANT EVENTS

On August 27, 2021, the Board of Directors of the Association and AgChoice Farm Credit, ACA signed a letter of intent to merge the two associations and entered into an Agreement and Plan of Merger. See also Note 14, Merger Activity, in the Notes to the Consolidated Financial Statements.

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## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, of 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 |
|---|---|
| ***ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*** | |
| • 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.<br>• Changes the present incurred loss impairment guidance for loans to an expected loss model.<br>• 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.<br>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.<br>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.<br>• 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.<br>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:<br>1. 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,<br>2. An allowance will be established for estimated credit losses on any debt securities,<br>3. 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.<br>• 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.<br>• 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 Notes to 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 to shareholders.

### Description of Property

The following table sets forth certain information regarding the properties of the reporting entity as of December 31, 2021:

| Location | Description | Form of Ownership |
|---|---|---|
| 1614 E. Churchville Road<br>Suite 102<br>Bel Air, MD 21015 | Branch Operations | Rented |
| 112 East Liberty Street<br>Charles Town, WV 25414 | Satellite Office | Rented |
| 102 Morgnec Road<br>Chestertown, MD 21620 | Branch Operations | Owned |
| 379 Deep Shore Road<br>Denton, MD 21629 | Branch Operations | Owned |
| 1410 South State Street<br>Dover, DE 19901 | Branch Operations | Owned |
| 925 North East Street<br>Frederick, MD 21701 | Branch Operations | Owned |
| 20816 DuPont Boulevard<br>Georgetown, DE 19947 | Branch Operations | Owned |
| 1260 Maryland Avenue<br>Suite 103A<br>Hagerstown, MD 21740 | Satellite Office | Rented |
| 158 Crimson Circle<br>Martinsburg, WV 25403 | Branch Operations | Owned |
| 15 Eby Chiques Road<br>Mount Joy, PA 17552 | Branch Operations | Owned |
| 680 Robert Fulton Highway<br>Quarryville, PA 17566 | Branch Operations | Owned |
| 6546 Mid Atlantic Lane<br>Salisbury, MD 21804 | Branch Operations | Owned |
| 1513 Main Street<br>Shoemakersville, PA 19555 | Branch Operations | Owned |
| 45 Aileron Court<br>Westminster, MD 21157 | Administrative Headquarters &<br>Branch Operations | Owned |
| 125 Prosperity Drive<br>Winchester, VA 22602 | Branch Operations | Owned |
| 1031 South Main Street<br>Woodstock, VA 22664 | Branch Operations | Owned |
| South Main Street<br>Woodstock, VA 22664 | Unimproved 1 acre lot | Owned |

*Rented facilities are leased by the Association at prevailing market rates from independent third parties for periods not currently exceeding five years. The Association leases excess space at two of its owned Branch Operations to third parties at prevailing market rates and expire no later than November 30, 2023.*

### Legal Proceedings

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

### Description of Capital Structure

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

### Description of Liabilities

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

### 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 to shareholders and is to be disclosed in this section, is incorporated herein by reference.

**Senior Officers**

The following represents certain information regarding the senior officers of the Association and their business experience for at least the past five years.

| Senior Officer | Position |
|---|---|
| Thomas H. Truitt, Jr. | *President & Chief Executive Officer* since January 2016. From June 2013 until December 2015 was Sr. Vice President & Chief Operating Officer. From January 2009 until June 2013 was Sr. Vice President and Regional Lending Manager. |
| Cathy L. Blair | *Sr. Vice President & Corporate Services* since September 2017. From February 2016 through August 2017 was Vice President, Administrative Services and Corporate Secretary. Previously served the Association in various positions in the Finance and Human Resources Departments since May 2007. |
| Stuart D. Cooper | *Sr. Vice President & Chief Lending Officer* since January 2019. From September 2015 until December 2019 was *Sr. Vice President & Division Manager*. Previously served the Association in various operations positions since October 1995. |
| Kurt H. Fuchs | *Sr. Vice President & Legislative Affairs* since January 2018. Employed by the Association in August 2012 as Government Affairs Officer. |
| Bessie H. Moy | *Sr. Vice President & Chief Audit Executive* since July 2019. Her previous 15 years of experience included being the Vice President of Internal Audit for a community bank, Director of Internal Audit for an international non-profit, and as Senior Manager in major international accounting firms. |
| Tammy L. Price | *Sr. Vice President & Director of Technology and Strategic Partnerships* since March 2009. Previously served Association in various positions in the Information Technology Department since July 2000. |
| Brian E. Rosati | *Sr. Vice President & Chief Financial Officer* since December 2018. Employed until October 2018 as Vice President of Finance with privately owned international advertising technology company. From 2010 until 2014 was Director of Corporate Finance for a publicly traded software company. His prior twelve years of experience are with major international accounting firms in audit and tax services. |
| William J. Rutter | *Sr. Vice President & Chief Credit Officer* since March 2017. From October 2016 through February 2017 he served as the Interim Chief Credit Officer. Previously served the Association in various credit and operations positions since January 1998. |
| Cheryl L. Steinbacher | *Sr. Vice President & Director of Human Resources and Training* since March 2015. Previous five years was Senior Vice President of Human Resources & Organizational Development for Cardinal Bank in McLean, Virginia. |
| Karen S. Swecker | *Sr. Vice President & Director of Loan Operations* since May 2020. From 2017 to 2020, was the Vice President and Relationship Manager with AgFirst Farm Credit Bank. Prior to that, served MidAtlantic Farm Credit for 11 years in various sales and operational roles. |

## Compensation

The total amount of compensation earned by the CEO and by all senior officers as a group during the years ended December 31, 2021, 2019 and 2018, is as follows:

| Name of Individual or Number in Group | Year | Salary | Bonus | Change in Pension Value | Deferred/ Perquisites (c) | Total |
|---|---|---|---|---|---|---|
| Thomas H. Truitt, Jr. | 2021 | $ 572,417 | $ 341,293 | $ (127,303) | $ 258,082 | $ 1,044,487 |
| Thomas H. Truitt, Jr. | 2020 | 530,020 | 318,705 | 318,086 | 242,488 | 1,409,299 |
| Thomas H. Truitt, Jr. | 2019 | 500,019 | 222,761 | 442,529 | 220,593 | 1,385,902 |
| 9 Officers* | 2021 | 1,763,696 | 505,184 | 377,325 | 708,473 | 3,354,677 |
| 11 Officers | 2020(a) | 1,750,265 | 467,553 | 1,250,984 | 600,907 | 4,069,709 |
| 12 Officers | 2019(b) | 1,524,990 | 323,200 | 1,428,557 | 677,839 | 3,954,586 |

** Disclosure of information on the total compensation paid during 2021 to any senior officers is available to shareholders upon request.*
*(a) For 2020, the table includes annual compensation for 1 individual who was a senior officer until May 2020 and 1 senior officer who began employment in May 2020.*
*(b) For 2019, the table includes compensation for 1 senior officer until March 2019 and 1 senior officer who began employment in July 2019.*
*(c) Amounts in the table classified as Deferred/Perquisites is comprised primarily of deferred compensation, life insurance, the Association's contributions to thrift plans (see Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements), sign-on bonus, payment of accrued annual leave, a one-time severance payment, relocation assistance and Association provided automobile.*

All of the senior officers of the Association participate in the Senior Management Incentive Plan. Goals are established annually by the Board of Directors based upon the Association's Annual Business Plan and include specific objectives regarding various Profitability objectives, Credit Quality review, and a Board defined Qualitative measure. Award opportunity for the CEO ranges between 0 and 75% of base salary; between 0 and 50% for the CFO, CCO and CLO and 0 to 40% for all other senior officers. For the CEO, 80% of the incentive award is based on Association Performance and the remaining 20% is based on Personal Performance. For the CFO, CCO and CLO, 70% of the incentive is based on Association Performance and the remaining 30% is based on Personal Performance. For all other senior officers, except the Chief Audit Executive, 60% is based on Association Performance and the remaining 40% is based on Personal Performance. For the Chief Audit Executive, 20% is based on Association Performance and the remaining 80% is based on Personal Performance.

Fifty percent of the annual incentive for all senior officers must be deferred for three years and the deferred portion is at risk during the deferral period. Annual Performance objectives must be obtained during the deferral period. The amount of the deferred portion can increase by 25% and, conversely, can reduce to 0% if annual Association Performance is not achieved at prescribed levels.

All employees other than the CEO and senior officers are eligible to participate in the Staff Profit Sharing/Incentive Plan. The Staff Plan includes certain requirements regarding Profitability, Credit Quality, Capital and certain regulatory requirements. Awards under the Plan are up to 10% for Association Performance and up to an additional 10% for individual performance for a maximum total of 20% of base salary.

Established targets for both plans are measured at December 31, 2021 so that bonuses can be accrued in the plan year. Payment of accrued bonuses is made by March 31 following the close of the plan year. For the deferred portion of senior officers' incentive, the payment is made by March 31 of the fourth year following the initial plan year.

The FCA regulation, "Disclosure to Shareholders; Pension Benefit Disclosures." Requires the exclusion of 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. This has been reflected in the Associations compensation table.

| Pension Benefits Table - 2021 | Number of Years of Credited Service | Actuarial Present Value of Accumulated Benefits [2] | Payments During Last Fiscal Year |
|---|---|---|---|
| Thomas H. Truitt, Jr., CEO | | | |
| AgFirst Retirement Plan | 29 | $ 2,432,333 | $ – |
| Total | | $ 2,432,333 | $ – |
| | | | |
| Senior Officers (excluding CEO)[1] | | | |
| Supplemental Executive Retirement Plan | 25 | $ 4,843,664 | $ – |
| AgFirst Defined Benefit Retirement Plan | | | |
| -Total | | $ 4,843,664 | $ – |

[1] *Deferred Benefits Plan.*
[2] *The Present Value of Accumulated Benefits is based upon assumptions and valuation dates that are the same as those used for the valuation of pension liabilities in the 2021 Annual Report, see Note 9, Employee Benefit Plans.*

**Retirement and Deferred Compensation Plans**

The Association's compensation programs include retirement and deferred compensation plans which are designed to provide income following an employee's retirement. Retirement benefits are paid following the employee's retirement while the benefits are earned while employed. The Association's objective is to offer benefit plans which 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 both supports the Association's mission and allows the Association to effectively align the human capital requirements with the Association's overall strategic objectives.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan which is a non-contributory defined benefit plan. Benefits under this plan are determined by a formula based on years of service and eligible compensation. Employees are eligible to retire and begin receiving unreduced pension benefits at age 65 or when years of service plus age equals "85". Upon retirement, annual payout is 2.0 percent of the highest three years of average salary, not including incentives, times years of credited service, subject to the Internal Revenue Code limitations.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participated in the AgFirst Farm Credit Cash Balance Retirement Plan. This plan was a qualified defined contribution pension plan. The Plan was terminated as of December 31, 2019 and vested benefits of the plan were distributed to plan participants in 2017 after plan termination approval by the Internal Revenue Service.

All employees are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan that has an employer matching contribution determined by the employee's date of employment. 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 6.0 percent, subject to Internal Revenue Code limitations 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 contribution up to 6.0 percent, and beginning January 1, 2015, employees hired on or after January 1, 2003 also received an employer nonelective contribution equal to 3.0 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a non-qualified deferred compensation plan. The purpose of the plan is to allow those employees to defer income taxes on a portion of their compensation until retirement or separation from the Association and to restore benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan includes a provision for discretionary contributions by the Association.

Employees who choose to defer a portion of their compensation may defer part or all of their base salary or incentive.

Also, all employees are eligible to receive rewards (a) based on years of service on five year, or multiple of five year, anniversaries, and (b) based on special exemplary performance as defined in the plan. A copy of these plans are available to stockholders upon request.

**Directors**

Directors and senior officers 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, registration fees, and other expenses associated with travel on official business. A copy of the 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 $342,314 for 2021, $198,032 for 2020 and $410,198 for 2019. The Association provides computer equipment to the directors to provide for an electronic means of communication. Expenses for the equipment are accounted for in accordance with the Association's equipment policy.

Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2021, an honorarium of $650 per day is paid for meetings, committee meetings (reduced to $300 if occurring on the same day as daily honorarium), training, events, and special assignments. For virtual video conference meetings and events less than or equal to four hours in length, the daily honorarium is reduced to $325. For participation in the regional customer advisory committee meetings and the regional annual customer events, an honorarium of $300 and $325, respectively, is paid.

In addition to the honoraria, as of December 31, 2021, directors are paid a quarterly retainer fee of $2,000, the chair and vice-chair are paid an additional $2,000 and $1,000, respectively, and committee chairs receive an additional $250. Directors are compensated at a per hour rate of $20 for travel time to Board meetings in excess of one hour, in addition to mileage and travel related expenses.

The following chart details for each director serving on the Board, the current term of expiration, and total cash compensation paid during 2021.

| Director | Current Term Expiration | Total Compensation |
|---|---|---|
| Brian L. Boyd<br>*2021 Chairman* | 2022 | $ 58,345 |
| T. Jeffery Jennings<br>*2021 Vice Chairman* | 2023 | 34,822 |
| Paul D. Baumgardner | 2024 | 34,308 |
| Julie A. Bolyard | 2025 | 33,100 |
| John Travis Hastings | 2023 | 37,400 |
| Laura M. Heilinger | 2024 | 35,535 |
| Walter C. Hopkins | 2021 | 10,367 |
| Anthony M. Ill<br>*Appointed and Outside* | 2025 | 42,487 |
| Fred R. Moore, Jr. | 2025 | 33,012 |
| Michael S. Nelson | 2022 | 36,150 |
| Jennifer L. Rhodes | 2024 | 49,762 |
| Douglas D. Scott | 2022 | 31,146 |
| Alan N. Siegfried<br>*Appointed and Outside* | 2022 | 35,920 |
| David R. Smith | 2023 | 48,378 |
| Fred N. West | 2022 | 25,510 |
| Charles M. Wright IV | 2023 | 38,520 |
| **Total** | | $ 584,762 |

The following represents certain information regarding Association Directors and their principal occupations during the past five years:

***Brian L. Boyd, Chairman,*** owns and operates a poultry production facility producing 860,000 broilers annually in four poultry houses on three different farms totaling 160 acres. He owns and operates Boyd's Custom Planting, covering 3,000+ acres per year planting soybeans and small grains. He also is the owner of Boyd Boys, LLC and trucks commodities for a local feed mill. Assists and works alongside his sons through Boyd's BBQ doing chicken BBQ fundraisers and catering events. Partner of Elizabeth Farms, tree farm and venue in Lancaster, PA. In addition, he is a member of the PA Farm Bureau and serves on the South Lebanon Ag Land Preserve Committee.

***T. Jeffery Jennings, Vice Chairman,*** operates a farm consisting of 100 head of beef cows. He is a member of the Page and Rockingham County Farm Service Agency Committee. Mr. Jennings is a Board member of Page Cooperative Farm Bureau and Board member of Page County Farmers Association. He is also a Lay Leader at Luray United Methodist Church.

***Paul D. Baumgardner*** owns Baumgardner's Hay and Straw, as well as the Harvest Barn Country Market. He also farms 400 acres, growing corn, soybeans, hay, wheat, as well as produce and proteins for the Market. Mr. Baumgardner also serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

***Julie A. Bolyard*** is a third generation producer, owning and operating Fruit Meadow Farms with her husband, where they raise beef cattle and meat goats for local sale. Ms. Bolyard also serves as the Chief Financial Officer for her family's business, Appalachian Orchard Company, a 550 acre operation producing upwards of 300,000 bushels of apples annually. Ms. Bolyard was appointed to the Board in May.

***John Travis Hastings*** is the owner of Lakeside Farms. Lakeside Farms is a grain, produce, and processing vegetable operation located in Laurel, Delaware. Travis also owns Lakeside Transportation, a school bus transportation business servicing the Laurel School District. Travis also serves as a board member on the Laurel Grain Company, Mar-Del Watermelon Association, the Sussex County Board of Adjustment, and the Delaware Prosperity Partnership.

***Laura M. Heilinger*** is a co-owner with her husband of a dairy and grain operation consisting of 140 Brown Swiss and Holstein cows and 350 acres of corn, alfalfa, soybeans, and some small grains. Ms. Heilinger also serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

***Walter C. Hopkins*** operates a dairy and grain farm consisting of 600 milk cows, 500 replacement heifers, and 1,000 acres of corn, alfalfa, grass and small grain. He owns and serves as President of Green Acres Farm, Inc. (dairy farm), and served as manager of Lyon's, LLC (land holding company). Prior to 2021, Mr. Hopkins served on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization, and on the AgFirst District Farm Credit Council Board. Mr. Hopkins also served on the Board, Governance Committee, and Compensation Committee of the AgFirst Farm Credit District Bank, his term ended December 31, 2020. Mr. Hopkins term of service on the MidAtlantic Board ended in May 2021.

***Anthony M. Ill*** was appointed as one of the Board's outside directors effective January 1, 2015. He is a Certified Public Accountant holding an active license in the state of Maryland. Mr. Ill is the founder of Rock Glenn Advisors, a consulting practice focusing on the financial, operational, and strategic aspects of business and has served as an interim CFO for a variety of companies in transition. His other recent professional experience includes Chairman of the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization, and Chief Financial and Operating Officer for Ripken Baseball. Mr. Ill has held various senior positions such as President, CFO, and COO with firms in advertising, agricultural pesticides and herbicides, machine tooling, and heavy utility equipment business sectors. Current clients include high-tech startups in the fields of computing and telecommunications.

***Fred R. Moore, Jr***. owns and operates Fred R. Moore & Son, Inc. and Collins Wharf Sod, consisting of a 1,110 acre turf production and grain operation. In addition, he is a partner in a land holding and rental management firm. He also serves on the boards of the Wicomico County Farm Bureau and the Wicomico County Soil Conservation District, and is a life member of the Allen Fire Company. He also serves on the Board, governance, and Chair of the compensation committee of the AgFirst Farm Credit District Bank, and on the AgFirst District Farm Credit Council Board. Days of service disclosed here for Mr. Moore as a member of the MidAtlantic Board do not reflect activities in his capacity as a member of the AgFirst Board and committees or the AgFirst Farm Credit Council Board. For further information related to specific duties, compensation, and days served in those positions, please see the AgFirst Farm Credit Bank 2021 Annual Report at ***www.agfirst.com.***

***Michael S. Nelson*** is the president of Nelson's Agri-Service, LLC operating in seed sales. As well, he is the owner/operator at Triple Creek Farm, consisting of row crops with a total of 900 acres rented/owned, and 50 head of Black Angus cows.

***Jennifer L. Rhodes*** owns and operates Deerfield Farms LLC, a poultry and grain operation with her two sons. The operation consists of a four-house chicken farm producing organic broilers and an irrigated grain farm producing corn, wheat, soybeans and cover crops. She is also employed as the Principal Agent for Agriculture and Food Systems, University of Maryland Extension, Queen Anne's County, Maryland. She is the Chair of the newly formed AgFirst Bank District Legislative Advisory Committee and represents the AgFirst Bank District on the national Farm Credit Council Board. She serves on the following organizations' board of directors: Compass Regional Hospice, Delmarva Chicken Association, US Roundtable for Sustainable Poultry & Eggs, Mid-Shore Community Foundation, County Farm Bureau; Queen Anne's Soil Conservation District, Dean's Global Leadership Council, and UMD AGNR. She also serves on the Delmarva Land and Litter Challenge Steering Committee and is the past Chair of the USDA MD State Farm Service Agency Committee, past President of the Delmarva Poultry Industry, Inc and the Maryland Association of County Agricultural Agents.

***Douglas D. Scott*** is owner and President of Walnut Hill Farms, Inc., a family-owned and managed cash-grain and vegetable operation consisting of 1,600 acres. Mr. Scott currently holds leadership positions in: Venture Farms, Inc. (Secretary), and Choptank Electric Cooperative (Board member and Treasurer).

***Alan N. Siegfried*** was appointed as one of the Board's outside directors and its designated financial expert effective January 1, 2015. He is a Certified Public Accountant and currently serves as an adjunct professor at the University of Maryland Smith School of Business. His recent professional experience includes serving as the Director of Internal Audit for the BankFund Staff Federal Credit Union, and as Auditor General for the Inter-American Development Bank. He has recently served on the Board and Audit Compliance Committee of Bon Secours Health System, Inc., and as the Vice Chair and a member of the UNICEF Audit Committee, and currently is the Audit Committee Chair of the Pan American Health Organization (PAHO). In 2018, Mr. Siegfried was reappointed to serve as an outside director and the Board's designated financial expert effective January 1, 2019.

***David R. Smith*** is the owner and operator of a dairy and crop farm on 360 acres and consisting of 150 dairy replacement heifers. David serves as Executive Director of the Pennsylvania Dairymen's Association and Board member of the Penn State Ag Council. He also serves as a member of the Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Holstein Association USA, and the Lebanon County Farm Bureau.

***Fred N. West*** owns and operates a poultry and grain (corn, soybeans, wheat) farm consisting of 2,400 acres (200 owned) and producing 440,000 broilers annually. He is a partner in F & F Farm LLC (poultry) and is also a partner of Fred West Farms LLC (grain).

***Charles M. Wright IV*** is owner and President of Cornerstone Farms Inc. t/a Wright's Market, a family owned and managed farm market, vegetable and cash grain operation consisting of 850 acres. He is also co-owner, with his wife, of MC Farms a poultry farm producing 210,000 broilers annually. Mr. Wright is the past President of the Wicomico County Farm Bureau, where he remains a Director, serves on the Executive Board of the Mar-DEL Watermelon Association, and is a member of the Salisbury Chamber of Commerce. Mr. Wright also serves on the Farm Credit Foundation for Agricultural Advancement Board, a 501(c)(3) organization.

The following chart details the number of meetings, other activities and additional compensation paid for other activities for each director.

| Director | Days Served: Board Meetings | Days Served: Other Official Activities | Committee Assignments | Compensation for Other Activities* |
|---|---|---|---|---|
| Brian L. Boyd, *2021 Chairman* | 10 | 49 | Executive | $ 25,600 |
| T. Jeffery Jennings, *2021 Vice Chairman* | 9 | 21 | Compensation & Governance, and Executive | 12,025 |
| Paul D. Baumgardner | 10 | 20 | Audit, and Executive | 11,025 |
| Julie A. Bolyard | 10 | 21 | Audit, and Risk | 12,975 |
| John Travis Hastings | 10 | 36 | Compensation & Governance | 18,150 |
| Laura M. Heilinger | 10 | 29 | Compensation & Governance | 16,200 |
| Walter C. Hopkins | 3 | 4 | Audit, and Executive | 2,600 |
| Anthony M. Ill, *Appointed and Outside* | 10 | 33 | Executive, and Risk | 17,875 |
| Fred R. Moore, Jr. | 10 | 19 | Audit, and Executive | 10,700 |
| Michael S. Nelson | 10 | 29 | Risk | 16,875 |
| Jennifer L. Rhodes | 10 | 53 | Compensation & Governance, and Executive | 26,625 |
| Douglas D. Scott | 10 | 20 | Executive, and Risk | 10,725 |
| Alan N. Siegfried, *Appointed and Outside* | 10 | 26 | Audit | 14,625 |
| David R. Smith | 10 | 48 | Executive, and Risk | 26,275 |
| Fred N. West | 8 | 16 | Audit, and Risk | 8,450 |
| Charles M. Wright IV | 10 | 32 | Audit | 17,825 |
| **Total** | 150 | 456 | | $ 248,550 |

**Included in the Total Compensation amount in the previous table.*

### Board of Director Committees

Our Board of Directors is organized into the following committees to carry out Board responsibilities: Committee members are appointed by the Board chair.

- The Audit Committee fulfills oversight responsibilities in relation to the quality of financial reporting and internal controls including those relating to accounting and reporting practices of the Association; those relating to the internal and external auditor; and to serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public. The Committee also oversees the adequacy of management's actions with respect to recommendations arising from auditing activities.

- The Compensation and Governance Committee addresses issues of Board governance and the Board's continuing efforts to strengthen and renew the Board, manages the Board annual self-assessment, oversees and provides overall direction and/or recommendations for compensation, training and education of Board members, the outside director election process, director compensation, ethics and conflict of interest matters, human resource performance management programs, and assists the Board of Directors in fulfilling its responsibilities concerning evaluation, development, and compensation of the CEO.

- The Risk Committee oversees the integration of risk management activities throughout our organization. Committee members review ongoing risk assessments of current and emerging risks to ensure adequate planning and resources are directed at managing the identified risks. The Committee also establishes and promotes an effective risk culture throughout our organization.

- The Executive Committee members consist of the board chair, vice chair and generally the immediate past board chair and chairs of the other three committees. Additional members may be engaged by the Committee for consolation to better ensure geographic representation, diversity and subject matter expertise. The committee is primarily responsible for providing input and direction to management on the development and implementation of the Association's strategic plan, policies and other significant matters requiring attention between board meetings.

### Other Committees

#### Nominating Committee

Each year, twelve customers from each of MidAtlantic Farm Credit's six election regions are elected by voting customers to serve on the Nominating Committee. The Nominating Committee meets each November to nominate candidates for open Director and Nominating Committee positions. This committee, which consists of customers who are not seated on the Board of Directors, proactively identifies qualified candidates for Board membership and reviews director nominations, helping to ensure that the Association continues to attract a highly qualified and diverse Board. The Nominating Committee makes a best effort to recommend at least two candidates for each open Board position. Members of this committee are compensated for their time and travel.

### Transactions with Senior Officers and Directors

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

**Involvement in Certain Legal Proceedings**

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

**Relationship with Independent Auditors**

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

For the year ended December 31, 2021, the Association paid fees and expenses of $80,850 for audit services rendered by its independent auditors, PricewaterhouseCoopers LLP, (PwC). No other fees were paid to PwC.

**Consolidated Financial Statements**

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 10, 2022 and the report of management, which appear in this Annual Report to shareholders are incorporated herein by reference. Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-888-339-3334 or writing Brian E. Rosati, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, Maryland 21157-3022, or accessing the website, ***www.mafc.com***. The Association prepares an electronic version of the Annual Report which 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 clean 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 to shareholders. 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 (Bank or AgFirst). 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. 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.

**Whistleblower**

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-321-9164 or a link to the website is available at ***www.convercent.com/report*** which, is effective until March 31, 2022. On April 1, 2022 the hotline will become (Navex) at 1-833-220-9773 or a link to the website is available at ***www.midatlanticfarmcredit.ethicspoint.com***.

**Privacy Policy**

Your privacy is a top priority in all aspects of our business. Our employees are informed of their responsibility to protect your confidential information and are governed by strict standards of conduct, which prohibit unauthorized use of your information. Security procedures and internal controls are also in place to protect your privacy.

We collect personally identifiable information (name, address, SSN) only if specifically and knowingly provided by you. We do not give, sell, or transfer any personal information to third parties, unless required by law or under such other permissible purposes as set forth by regulation.

For more details, visit ***www.mafc.com/privacy-security***.

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 are employees of MidAtlantic Farm Credit (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.

PricewaterhouseCoopers LLP (PwC), 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 PwC the matters that are required to be discussed by Statement on Auditing Standards AU-C 260 and 265 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from MidAtlantic Farm Credit. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's 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:

Paul D. Baumgardner

Paul D. Baumgardner
Chairman of the Audit Committee

**Members of the Audit Committee**

Charles M. Wright IV
Vice Chairman

Julie A. Bolyard
Fred R. Moore Jr.
Alan N. Siegfried
Fred N. West

March 10, 2022

Report of INDEPENDENT AUDITORS

**Report of Independent Auditors**

To the Board of Directors and Management of MidAtlantic Farm Credit, ACA

***Opinion***

We have audited the accompanying consolidated financial statements of MidAtlantic Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2021, 2020 and 2019, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021, 2020 and 2019, and the results of its operations and its cash flows for the years 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 (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated 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.

***Responsibilities of Management for the Consolidated Financial Statements***

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

In preparing the consolidated 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 for one year after the date the consolidated financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 US 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

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likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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.

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.

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the 2021 Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated 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.

PricewaterhouseCoopers LLP

Atlanta, Georgia
March 10, 2022

Consolidated
# BALANCE SHEETS

| (dollars in thousands) | 2021 | December 31, 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **$ 344** | $ 228 | $ 3,508 |
| Loans | **3,040,890** | 2,905,638 | 2,844,993 |
| Allowance for loan losses | **(30,280)** | (36,131) | (32,197) |
| Net loans | **3,010,610** | 2,869,507 | 2,812,796 |
| Loans held for sale | **1** | 2,894 | 900 |
| Other investments | **303** | 113 | — |
| Accrued interest receivable | **13,092** | 14,454 | 16,249 |
| Equity investments in other Farm Credit institutions | **27,177** | 30,257 | 32,825 |
| Premises and equipment, net | **14,865** | 15,931 | 15,938 |
| Other property owned | **1,368** | 1,661 | 1,415 |
| Accounts receivable | **48,560** | 43,347 | 29,895 |
| Other assets | **3,963** | 3,726 | 3,873 |
| Total assets | **$ 3,120,283** | $ 2,982,118 | $ 2,917,399 |
| **Liabilities** | | | |
| Notes payable to AgFirst Farm Credit Bank | **$ 2,338,902** | $ 2,229,163 | $ 2,192,656 |
| Accrued interest payable | **4,396** | 4,430 | 5,796 |
| Patronage refunds payable | **80,575** | 51,791 | 27,346 |
| Accounts payable | **5,222** | 4,188 | 2,748 |
| Advanced conditional payments | **67** | 48 | — |
| Other liabilities | **19,830** | 27,174 | 27,308 |
| Total liabilities | **2,448,992** | 2,316,794 | 2,255,854 |
| Commitments and contingencies (Note 11) | | | |
| **Members' Equity** | | | |
| Capital stock and participation certificates | **11,814** | 11,400 | 10,974 |
| Retained earnings | | | |
| Allocated | **407,650** | 405,105 | 409,174 |
| Unallocated | **252,262** | 249,314 | 241,769 |
| Accumulated other comprehensive income (loss) | **(435)** | (495) | (372) |
| Total members' equity | **671,291** | 665,324 | 661,545 |
| Total liabilities and members' equity | **$ 3,120,283** | $ 2,982,118 | $ 2,917,399 |

*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 | **$ 129,173** | $ 135,777 | $ 145,626 |
| **Interest Expense** | | | |
| Notes payable to AgFirst Farm Credit Bank | **51,449** | 59,708 | 72,049 |
| Net interest income | **77,724** | 76,069 | 73,577 |
| Provision for (reversal of allowance for) loan losses | **(5,000)** | 5,000 | 4,000 |
| Net interest income after provision for (reversal of allowance for) loan losses | **82,724** | 71,069 | 69,577 |
| **Noninterest Income** | | | |
| Loan fees | **1,805** | 1,915 | 1,346 |
| Fees for financially related services | **3,834** | 3,817 | 3,165 |
| Lease income | **140** | 140 | 191 |
| Patronage refunds from other Farm Credit institutions | **48,213** | 42,934 | 29,423 |
| Gains (losses) on sales of rural home loans, net | **1,414** | 1,393 | 1,197 |
| Gains (losses) on sales of premises and equipment, net | **320** | 219 | 127 |
| Gains (losses) on other transactions | **259** | 222 | 284 |
| Insurance Fund refunds | **—** | 553 | 589 |
| Other noninterest income | **54** | 63 | 50 |
| Total noninterest income | **56,039** | 51,256 | 36,372 |
| **Noninterest Expense** | | | |
| Salaries and employee benefits | **34,524** | 30,313 | 28,891 |
| Occupancy and equipment | **2,027** | 1,994 | 2,533 |
| Insurance Fund premiums | **3,543** | 2,089 | 1,951 |
| (Gains) losses on other property owned, net | **(17)** | 404 | 29 |
| Other operating expenses | **9,327** | 8,262 | 8,713 |
| Total noninterest expense | **49,404** | 43,062 | 42,117 |
| Income before income taxes | **89,359** | 79,263 | 63,832 |
| Provision for income taxes | **366** | 531 | 60 |
| **Net income** | **$ 88,993** | $ 78,732 | $ 63,772 |
| **Other comprehensive income net of tax** | | | |
| Employee benefit plans adjustments | **60** | (123) | (174) |
| **Comprehensive income** | **$ 89,053** | $ 78,609 | $ 63,598 |

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

# Consolidated Statements of CHANGES in MEMBERS' EQUITY

| *(dollars in thousands)* | Capital Stock and Participation Certificates | Retained Earnings: Allocated | Retained Earnings: Unallocated | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2018 | $ 10,744 | $ 388,255 | $ 236,149 | $ (198) | $ 634,950 |
| Cumulative effect of change in accounting principle | | | (11) | | (11) |
| Comprehensive income | | | 63,772 | (174) | 63,598 |
| Capital stock/participation certificates issued/(retired), net | 230 | | | | 230 |
| Patronage distribution | | | | | |
| Cash | | | (17,000) | | (17,000) |
| Nonqualified retained earnings | | 41,251 | (41,251) | | — |
| Retained earnings retired | | (20,222) | | | (20,222) |
| Patronage distribution adjustment | | (110) | 110 | | — |
| Balance at December 31, 2019 | $ 10,974 | $ 409,174 | $ 241,769 | $ (372) | $ 661,545 |
| Comprehensive income | | | 78,732 | (123) | 78,609 |
| Capital stock/participation certificates issued/(retired), net | 426 | | | | 426 |
| Patronage distribution | | | | | |
| Cash | | | (51,500) | | (51,500) |
| Nonqualified retained earnings | | 17,695 | (17,695) | | — |
| Retained earnings retired | | (23,756) | | | (23,756) |
| Patronage distribution adjustment | | 1,992 | (1,992) | | — |
| Balance at December 31, 2020 | $ 11,400 | $ 405,105 | $ 249,314 | $ (495) | $ 665,324 |
| **Comprehensive income** | | | **88,993** | **60** | **89,053** |
| **Capital stock/participation certificates issued/(retired), net** | **414** | | | | **414** |
| **Patronage distribution** | | | | | |
| **Cash** | | | **(80,500)** | | **(80,500)** |
| **Nonqualified retained earnings** | | **622** | **(622)** | | **—** |
| **Patronage distribution adjustment** | | **1,923** | **(4,923)** | | **(3,000)** |
| **Balance at December 31, 2021** | **$ 11,814** | **$ 407,650** | **$ 252,262** | **$ (435)** | **$ 671,291** |

*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 | **$ 88,993** | $ 78,732 | $ 63,772 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation on premises and equipment | **1,402** | 1,268 | 1,273 |
| Amortization (accretion) of net deferred loan costs (fees) | **1,263** | 1,468 | 1,520 |
| Provision for (reversal of allowance for) loan losses | **(5,000)** | 5,000 | 4,000 |
| (Gains) losses on other property owned | **(214)** | 314 | (82) |
| (Gains) losses on sales of premises and equipment, net | **(320)** | (219) | (127) |
| (Gains) losses on sales of rural home loans, net | **(1,414)** | (1,393) | (1,197) |
| (Gains) losses on other transactions | **(259)** | (222) | (284) |
| Changes in operating assets and liabilities: | | | |
| Origination of loans held for sale | **(66,269)** | (67,913) | (55,951) |
| Proceeds from sales of loans held for sale, net | **70,576** | 67,312 | 56,841 |
| (Increase) decrease in accrued interest receivable | **1,362** | 1,795 | 820 |
| (Increase) decrease in accounts receivable | **(5,213)** | (13,452) | 4,624 |
| (Increase) decrease in other assets | **(237)** | 147 | (1,084) |
| Increase (decrease) in accrued interest payable | **(34)** | (1,366) | (104) |
| Increase (decrease) in accounts payable | **1,034** | 1,440 | 328 |
| Increase (decrease) in other liabilities | **(6,932)** | (31) | 1,043 |
| Total adjustments | **(10,255)** | (5,852) | 11,620 |
| Net cash provided by (used in) operating activities | **78,738** | 72,880 | 75,392 |
| **Cash flows from investing activities:** | | | |
| Net (increase) decrease in loans | **(137,828)** | (63,979) | (46,482) |
| (Increase) decrease in equity investments in other Farm Credit institutions | **3,080** | 2,568 | (751) |
| Purchases of other investments | **(190)** | (113) | — |
| Purchases of premises and equipment | **(493)** | (1,200) | (803) |
| Proceeds from sales of premises and equipment | **477** | 158 | 157 |
| Proceeds from sales of other property owned | **876** | 236 | 941 |
| Net cash provided by (used in) investing activities | **(134,078)** | (62,330) | (46,938) |
| **Cash flows from financing activities:** | | | |
| Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net | **109,739** | 36,507 | 11,160 |
| Net increase (decrease) in advanced conditional payments | **19** | 48 | — |
| Capital stock and participation certificates issued/(retired), net | **414** | 426 | 230 |
| Patronage refunds and dividends paid | **(54,716)** | (27,055) | (20,490) |
| Retained earnings retired | **—** | (23,756) | (20,222) |
| Net cash provided by (used in) financing activities | **55,456** | (13,830) | (29,322) |
| Net increase (decrease) in cash | **116** | (3,280) | (868) |
| Cash, beginning of period | **228** | 3,508 | 4,376 |
| Cash, end of period | **$ 344** | $ 228 | $ 3,508 |
| | | | |
| **Supplemental schedule of non-cash activities:** | | | |
| Financed sales of other property owned | **$ —** | $ — | $ 413 |
| Receipt of property in settlement of loans | **462** | 800 | 1,968 |
| Estimated cash dividends or patronage distributions declared or payable | **80,500** | 51,500 | 17,000 |
| Employee benefit plans adjustments (Note 9) | **(60)** | 123 | 174 |
| | | | |
| **Supplemental information:** | | | |
| Interest paid | **$ 51,483** | $ 61,074 | $ 72,153 |
| Taxes (refunded) paid, net | **446** | 368 | 59 |

*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:** MidAtlantic Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to borrowers in the counties of Kent, New Castle and Sussex in the state of Delaware; counties of Baltimore, Caroline, Carroll, Cecil, Dorchester, Frederick, Harford, Howard, Kent, Montgomery, Queen Anne's, Somerset, Talbot, Washington, Wicomico and Worcester in the state of Maryland; counties of Berks, Bucks, Carbon, Chester, Dauphin, Delaware, Lancaster, Lebanon, Lehigh, Monroe, Montgomery, Northampton, Philadelphia, Pike and Schuylkill in the state of Pennsylvania; counties of Accomack, Clarke, Frederick, Northampton, Page, Shenandoah and Warren, in the state of Virginia; and the counties of Berkeley, Jefferson and Morgan, in the state of West Virginia.

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 long-term, short-term and intermediate 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 Systemwide 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 may 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 $92 in 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 Equity Investments***
Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment.

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is carried at cost less any impairment, plus or minus adjustments resulting from any observable price changes.

***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 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.

***Single Employer Defined Benefit Plan***
The Association also sponsors a single employer defined benefit supplemental retirement plan for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

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 also 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 acts as lessor in certain contractual arrangements. The contracts 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 | $ 2,000,305 | $ 1,866,567 | $ 1,771,690 |
| Production and intermediate term | 758,322 | 737,853 | 796,599 |
| Loans to cooperatives | 20,923 | 27,209 | 17,437 |
| Processing and marketing | 81,753 | 88,494 | 78,001 |
| Farm-related business | 53,564 | 48,852 | 49,109 |
| Communication | 42,407 | 58,449 | 62,134 |
| Power and water/waste disposal | 725 | 2,646 | 3,148 |
| Rural residential real estate | 57,922 | 50,612 | 41,931 |
| International | 24,969 | 24,956 | 24,944 |
| Total loans | $ 3,040,890 | $ 2,905,638 | $ 2,844,993 |

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 | $ 44,746 | $ 3,134 | $ 286 | $ – | $ – | $ – | $ 45,032 | $ 3,134 |
| Production and intermediate term | 56,024 | 73,391 | 19,339 | 2,284 | – | – | 75,363 | 75,675 |
| Loans to cooperatives | 9,765 | – | 11,205 | – | – | – | 20,970 | – |
| Processing and marketing | 22,744 | 30,297 | 3,803 | – | 3,555 | – | 30,102 | 30,297 |
| Farm-related business | 1,579 | – | 65 | – | – | – | 1,644 | – |
| Communication | 17,243 | – | 25,258 | – | – | – | 42,501 | – |
| Power and water/waste disposal | – | – | 726 | – | – | – | 726 | – |
| International | – | – | 25,000 | – | – | – | 25,000 | – |
| Total | $ 152,101 | $ 106,822 | $ 85,682 | $ 2,284 | $ 3,555 | $ – | $ 241,338 | $ 109,106 |

| 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 | $ 42,818 | $ – | $ – | $ – | $ – | $ – | $ 42,818 | $ – |
| Production and intermediate term | 44,076 | 73,020 | 30,018 | 2,135 | – | – | 74,094 | 75,155 |
| Loans to cooperatives | 11,962 | – | 15,286 | – | – | – | 27,248 | – |
| Processing and marketing | 37,674 | 17,892 | 4,141 | – | 2,538 | – | 44,353 | 17,892 |
| Farm-related business | 1,579 | 496 | – | – | – | – | 1,579 | 496 |
| Communication | 21,260 | – | 37,342 | – | – | – | 58,602 | – |
| Power and water/waste disposal | – | – | 2,648 | – | – | – | 2,648 | – |
| International | – | – | 25,000 | – | – | – | 25,000 | – |
| Total | $ 159,369 | $ 91,408 | $ 114,435 | $ 2,135 | $ 2,538 | $ – | $ 276,342 | $ 93,543 |

| | 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 | $ 44,750 | $ – | $ – | $ – | $ – | $ – | $ 44,750 | $ – |
| Production and intermediate term | 51,029 | 56,028 | 10,795 | 4,333 | – | – | 61,824 | 60,361 |
| Loans to cooperatives | 6,911 | – | 10,573 | – | – | – | 17,484 | – |
| Processing and marketing | 29,367 | 15,627 | 4,426 | – | – | – | 33,793 | 15,627 |
| Farm-related business | 1,579 | – | – | – | – | – | 1,579 | – |
| Communication | 18,251 | – | 44,010 | – | – | – | 62,261 | – |
| Power and water/waste disposal | – | – | 3,157 | – | – | – | 3,157 | – |
| International | – | – | 25,000 | – | – | – | 25,000 | – |
| Total | $ 151,887 | $ 71,655 | $ 97,961 | $ 4,333 | $ – | $ – | $ 249,848 | $ 75,988 |

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, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Real estate mortgage:** | | | |
| Acceptable | 94.31% | 91.43% | 91.41% |
| OAEM | 2.62 | 3.30 | 4.66 |
| Substandard/doubtful/loss | 3.07 | 5.27 | 3.93 |
| | 100.00% | 100.00% | 100.00% |
| **Production and intermediate term:** | | | |
| Acceptable | 94.86% | 92.04% | 89.25% |
| OAEM | 2.65 | 4.25 | 5.87 |
| Substandard/doubtful/loss | 2.49 | 3.71 | 4.88 |
| | 100.00% | 100.00% | 100.00% |
| **Loans to cooperatives:** | | | |
| Acceptable | 70.86% | 68.12% | 100.00% |
| OAEM | 29.14 | 31.88 | 0.00 |
| Substandard/doubtful/loss | 0.00 | 0.00 | 0.00 |
| | 100.00% | 100.00% | 100.00% |
| **Processing and marketing:** | | | |
| Acceptable | 100.00% | 94.63% | 93.67% |
| OAEM | 0.00 | 5.37 | 6.33 |
| Substandard/doubtful/loss | 0.00 | 0.00 | 0.00 |
| | 100.00% | 100.00% | 100.00% |
| **Farm-related business:** | | | |
| Acceptable | 95.35% | 92.66% | 95.37% |
| OAEM | 4.63 | 6.68 | 4.11 |
| Substandard/doubtful/loss | 0.02 | 0.66 | 0.52 |
| | 100.00% | 100.00% | 100.00% |

| | December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Communication:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | 0.00 | 0.00 | 0.00 |
| Substandard/doubtful/loss | 0.00 | 0.00 | 0.00 |
| | 100.00% | 100.00% | 100.00% |
| **Power and water/waste disposal:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | 0.00 | 0.00 | 0.00 |
| Substandard/doubtful/loss | 0.00 | 0.00 | 0.00 |
| | 100.00% | 100.00% | 100.00% |
| **Rural residential real estate:** | | | |
| Acceptable | 95.97% | 95.51% | 92.66% |
| OAEM | 2.01 | 2.22 | 3.32 |
| Substandard/doubtful/loss | 2.02 | 2.27 | 4.02 |
| | 100.00% | 100.00% | 100.00% |
| **International:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | 0.00 | 0.00 | 0.00 |
| Substandard/doubtful/loss | 0.00 | 0.00 | 0.00 |
| | 100.00% | 100.00% | 100.00% |
| **Total loans:** | | | |
| Acceptable | 94.61% | 91.81% | 91.28% |
| OAEM | 2.71 | 3.81 | 4.84 |
| Substandard/doubtful/loss | 2.68 | 4.38 | 3.88 |
| | 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 | $ 7,957 | $ 13,325 | $ 21,282 | $ 1,987,868 | $ 2,009,150 |
| Production and intermediate term | 3,226 | 4,574 | 7,800 | 754,348 | 762,148 |
| Loans to cooperatives | – | – | – | 20,945 | 20,945 |
| Processing and marketing | – | – | – | 81,795 | 81,795 |
| Farm-related business | 169 | 9 | 178 | 53,537 | 53,715 |
| Communication | – | – | – | 42,411 | 42,411 |
| Power and water/waste disposal | – | – | – | 741 | 741 |
| Rural residential real estate | 507 | 87 | 594 | 57,482 | 58,076 |
| International | – | – | – | 25,001 | 25,001 |
| Total | $ 11,859 | $ 17,995 | $ 29,854 | $ 3,024,128 | $ 3,053,982 |

| | 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 | $ 6,531 | $ 17,770 | $ 24,301 | $ 1,851,801 | $ 1,876,102 |
| Production and intermediate term | 3,504 | 6,349 | 9,853 | 732,348 | 742,201 |
| Loans to cooperatives | – | – | – | 27,237 | 27,237 |
| Processing and marketing | – | – | – | 88,652 | 88,652 |
| Farm-related business | 78 | 15 | 93 | 48,952 | 49,045 |
| Communication | – | – | – | 58,454 | 58,454 |
| Power and water/waste disposal | – | – | – | 2,667 | 2,667 |
| Rural residential real estate | 311 | 252 | 563 | 50,182 | 50,745 |
| International | – | – | – | 24,989 | 24,989 |
| Total | $ 10,424 | $ 24,386 | $ 34,810 | $ 2,885,282 | $ 2,920,092 |

| | 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 | $ 8,265 | $ 14,832 | $ 23,097 | $ 1,758,779 | $ 1,781,876 |
| Production and intermediate term | 2,779 | 6,932 | 9,711 | 792,259 | 801,970 |
| Loans to cooperatives | – | – | – | 17,502 | 17,502 |
| Processing and marketing | – | – | – | 78,208 | 78,208 |
| Farm-related business | 217 | 145 | 362 | 48,956 | 49,318 |
| Communication | – | – | – | 62,142 | 62,142 |
| Power and water/waste disposal | – | – | – | 3,173 | 3,173 |
| Rural residential real estate | 514 | 835 | 1,349 | 40,700 | 42,049 |
| International | – | – | – | 25,004 | 25,004 |
| Total | $ 11,775 | $ 22,744 | $ 34,519 | $ 2,826,723 | $ 2,861,242 |

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

| | December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| **Nonaccrual loans:** | | | |
| Real estate mortgage | $ 28,474 | $ 31,148 | $ 26,256 |
| Production and intermediate term | 8,540 | 11,772 | 18,900 |
| Farm-related business | 9 | 15 | 75 |
| Rural residential real estate | 625 | 589 | 1,113 |
| Total | $ 37,648 | $ 43,524 | $ 46,344 |
| **Accruing restructured loans:** | | | |
| Real estate mortgage | $ 21,745 | $ 28,842 | $ 18,458 |
| Production and intermediate term | 4,957 | 7,316 | 12,344 |
| Farm-related business | 133 | 164 | – |
| Rural residential real estate | 472 | 490 | 382 |
| Total | $ 27,307 | $ 36,812 | $ 31,184 |
| **Accruing loans 90 days or more past due:** | | | |
| Production and intermediate term | $ 220 | $ – | $ – |
| Farm-related business | – | – | 70 |
| Total | $ 220 | $ – | $ 70 |
| Total nonperforming loans | $ 65,175 | $ 80,336 | $ 77,598 |
| Other property owned | 1,368 | 1,661 | 1,415 |
| Total nonperforming assets | $ 66,543 | $ 81,997 | $ 79,013 |
| Nonaccrual loans as a percentage of total loans | 1.24% | 1.50% | 1.63% |
| Nonperforming assets as a percentage of total loans and other property owned | 2.19% | 2.82% | 2.78% |
| Nonperforming assets as a percentage of capital | 9.91% | 12.32% | 11.94% |

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 | $ 14,953 | $ 18,079 | $ 20,992 |
| Past due | 22,695 | 25,445 | 25,352 |
| Total impaired nonaccrual loans | $ 37,648 | $ 43,524 | $ 46,344 |
| **Impaired accrual loans:** | | | |
| Restructured | $ 27,307 | $ 36,812 | $ 31,184 |
| 90 days or more past due | 220 | – | 70 |
| Total impaired accrual loans | $ 27,527 | $ 36,812 | $ 31,254 |
| Total impaired loans | $ 65,175 | $ 80,336 | $ 77,598 |
| Additional commitments to lend | $ 23 | $ 413 | $ 1,384 |

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 | |
|---|---|---|---|---|---|
| Impaired loans: | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 9,212 | $ 10,920 | $ 3,064 | $ 10,306 | $ 441 |
| Production and intermediate term | 5,241 | 6,007 | 2,783 | 5,862 | 251 |
| Farm-related business | 9 | 25 | 3 | 9 | 1 |
| Rural residential real estate | 445 | 565 | 90 | 498 | 21 |
| Total | $ 14,907 | $ 17,517 | $ 5,940 | $ 16,675 | $ 714 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 41,007 | $ 45,995 | $ – | $ 45,871 | $ 1,964 |
| Production and intermediate term | 8,476 | 10,607 | – | 9,483 | 406 |
| Farm-related business | 133 | 276 | – | 150 | 7 |
| Rural residential real estate | 652 | 752 | – | 730 | 31 |
| Total | $ 50,268 | $ 57,630 | $ – | $ 56,234 | $ 2,408 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 50,219 | $ 56,915 | $ 3,064 | $ 56,177 | $ 2,405 |
| Production and intermediate term | 13,717 | 16,614 | 2,783 | 15,345 | 657 |
| Farm-related business | 142 | 301 | 3 | 159 | 8 |
| Rural residential real estate | 1,097 | 1,317 | 90 | 1,228 | 52 |
| Total | $ 65,175 | $ 75,147 | $ 5,940 | $ 72,909 | $ 3,122 |

| | December 31, 2020 | | | Year Ended December 31, 2020 | |
|---|---|---|---|---|---|
| Impaired loans: | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 12,022 | $ 13,495 | $ 4,252 | $ 12,304 | $ 347 |
| Production and intermediate term | 7,374 | 8,192 | 3,954 | 7,548 | 213 |
| Farm-related business | 15 | 31 | 4 | 16 | – |
| Rural residential real estate | 398 | 479 | 140 | 407 | 11 |
| Total | $ 19,809 | $ 22,197 | $ 8,350 | $ 20,275 | $ 571 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 47,968 | $ 52,119 | $ – | $ 49,097 | $ 1,383 |
| Production and intermediate term | 11,714 | 14,322 | – | 11,989 | 338 |
| Farm-related business | 164 | 307 | – | 167 | 5 |
| Rural residential real estate | 681 | 761 | – | 697 | 20 |
| Total | $ 60,527 | $ 67,509 | $ – | $ 61,950 | $ 1,746 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 59,990 | $ 65,614 | $ 4,252 | $ 61,401 | $ 1,730 |
| Production and intermediate term | 19,088 | 22,514 | 3,954 | 19,537 | 551 |
| Farm-related business | 179 | 338 | 4 | 183 | 5 |
| Rural residential real estate | 1,079 | 1,240 | 140 | 1,104 | 31 |
| Total | $ 80,336 | $ 89,706 | $ 8,350 | $ 82,225 | $ 2,317 |

| Impaired loans: | December 31, 2019 Recorded Investment | Unpaid Principal Balance | Related Allowance | Year Ended December 31, 2019 Average Impaired Loans | Interest Income Recognized on Impaired Loans |
|---|---|---|---|---|---|
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 8,627 | $ 9,877 | $ 2,351 | $ 8,032 | $ 51 |
| Production and intermediate term | 8,055 | 8,999 | 3,829 | 7,499 | 48 |
| Farm-related business | 75 | 89 | 16 | 70 | – |
| Rural residential real estate | 1,117 | 1,238 | 230 | 1,039 | 7 |
| Total | $ 17,874 | $ 20,203 | $ 6,426 | $ 16,640 | $ 106 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 36,087 | $ 41,397 | $ – | $ 33,595 | $ 213 |
| Production and intermediate term | 23,189 | 25,246 | – | 21,587 | 137 |
| Farm-related business | 70 | 122 | – | 65 | 1 |
| Rural residential real estate | 378 | 396 | – | 353 | 2 |
| Total | $ 59,724 | $ 67,161 | $ – | $ 55,600 | $ 353 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 44,714 | $ 51,274 | $ 2,351 | $ 41,627 | $ 264 |
| Production and intermediate term | 31,244 | 34,245 | 3,829 | 29,086 | 185 |
| Farm-related business | 145 | 211 | 16 | 135 | 1 |
| Rural residential real estate | 1,495 | 1,634 | 230 | 1,392 | 9 |
| Total | $ 77,598 | $ 87,364 | $ 6,426 | $ 72,240 | $ 459 |

A summary of changes in the allowance for loan losses and period end recorded investment in loans for each reporting period 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 | $ 15,617 | $ 18,333 | $ 1,719 | $ 115 | $ 2 | $ 323 | $ 22 | $ 36,131 |
| Charge-offs | (1,039) | (21) | – | – | – | (57) | – | (1,117) |
| Recoveries | 155 | 111 | – | – | – | – | – | 266 |
| Provision for loan losses | (2,451) | (2,482) | (28) | (49) | (2) | 12 | – | (5,000) |
| Balance at December 31, 2021 | $ 12,282 | $ 15,941 | $ 1,691 | $ 66 | $ – | $ 278 | $ 22 | $ 30,280 |
| Balance at December 31, 2019 | $ 12,754 | $ 17,841 | $ 998 | $ 139 | $ 2 | $ 441 | $ 22 | $ 32,197 |
| Charge-offs | (355) | (682) | (94) | – | – | – | – | (1,131) |
| Recoveries | 39 | 26 | – | – | – | – | – | 65 |
| Provision for loan losses | 3,179 | 1,148 | 815 | (24) | – | (118) | – | 5,000 |
| Balance at December 31, 2020 | $ 15,617 | $ 18,333 | $ 1,719 | $ 115 | $ 2 | $ 323 | $ 22 | $ 36,131 |
| Balance at December 31, 2018 | $ 11,205 | $ 17,541 | $ 792 | $ 150 | $ 2 | $ 400 | $ – | $ 30,090 |
| Charge-offs | (1,266) | (628) | (52) | – | – | – | – | (1,946) |
| Recoveries | 13 | 22 | 2 | – | – | 16 | – | 53 |
| Provision for loan losses | 2,802 | 906 | 256 | (11) | – | 25 | 22 | 4,000 |
| Balance at December 31, 2019 | $ 12,754 | $ 17,841 | $ 998 | $ 139 | $ 2 | $ 441 | $ 22 | $ 32,197 |
| **Allowance on loans evaluated for impairment:** | | | | | | | | |
| Individually | $ 3,064 | $ 2,783 | $ 3 | $ – | $ – | $ 90 | $ – | $ 5,940 |
| Collectively | 9,218 | 13,158 | 1,688 | 66 | – | 188 | 22 | 24,340 |
| Balance at December 31, 2021 | $ 12,282 | $ 15,941 | $ 1,691 | $ 66 | $ – | $ 278 | $ 22 | $ 30,280 |
| Individually | $ 4,252 | $ 3,954 | $ 4 | $ – | $ – | $ 140 | $ – | $ 8,350 |
| Collectively | 11,365 | 14,379 | 1,715 | 115 | 2 | 183 | 22 | 27,781 |
| Balance at December 31, 2020 | $ 15,617 | $ 18,333 | $ 1,719 | $ 115 | $ 2 | $ 323 | $ 22 | $ 36,131 |
| Individually | $ 2,351 | $ 3,829 | $ 16 | $ – | $ – | $ 230 | $ – | $ 6,426 |
| Collectively | 10,403 | 14,012 | 982 | 139 | 2 | 211 | 22 | 25,771 |
| Balance at December 31, 2019 | $ 12,754 | $ 17,841 | $ 998 | $ 139 | $ 2 | $ 441 | $ 22 | $ 32,197 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | | |
| Individually | $ 28,474 | $ 8,540 | $ 9 | $ – | $ – | $ 625 | $ – | $ 37,648 |
| Collectively | 1,980,676 | 753,608 | 156,446 | 42,411 | 741 | 57,451 | 25,001 | 3,016,334 |
| Balance at December 31, 2021 | $ 2,009,150 | $ 762,148 | $ 156,455 | $ 42,411 | $ 741 | $ 58,076 | $ 25,001 | $ 3,053,982 |
| Individually | $ 31,148 | $ 11,772 | $ 15 | $ – | $ – | $ 589 | $ – | $ 43,524 |
| Collectively | 1,844,954 | 730,429 | 164,919 | 58,454 | 2,667 | 50,156 | 24,989 | 2,876,568 |
| Balance at December 31, 2020 | $ 1,876,102 | $ 742,201 | $ 164,934 | $ 58,454 | $ 2,667 | $ 50,745 | $ 24,989 | $ 2,920,092 |
| Individually | $ 26,256 | $ 18,900 | $ 75 | $ – | $ – | $ 1,113 | $ – | $ 46,344 |
| Collectively | 1,755,620 | 783,070 | 144,953 | 62,142 | 3,173 | 40,936 | 25,004 | 2,814,898 |
| Balance at December 31, 2019 | $ 1,781,876 | $ 801,970 | $ 145,028 | $ 62,142 | $ 3,173 | $ 42,049 | $ 25,004 | $ 2,861,242 |

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

To mitigate risk of loan losses, the Association has entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Association was $200, $357, and $473 at December 31, 2021, 2020, and 2019, respectively. Fees paid to Farmer Mac for such commitments totaled $2, $2, and $3 for 2021, 2020, and 2019, respectively.

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 tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

| | Year Ended December 31, 2021 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 270 | $ 12,843 | $ – | $ 13,113 | |
| Production and intermediate term | 360 | 8,003 | – | 8,363 | |
| Rural residential real estate | – | 81 | – | 81 | |
| Total | $ 630 | $ 20,927 | $ – | $ 21,557 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 266 | $ 12,854 | $ – | $ 13,120 | $ – |
| Production and intermediate term | 372 | 8,093 | – | 8,465 | – |
| Processing and marketing | 1 | – | – | 1 | – |
| Rural residential real estate | – | 96 | – | 96 | – |
| Total | $ 639 | $ 21,043 | $ – | $ 21,682 | $ – |

| | Year Ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 10,865 | $ 21,777 | $ – | $ 32,642 | |
| Production and intermediate term | 442 | 18,546 | – | 18,988 | |
| Farm-related business | 157 | – | – | 157 | |
| Rural residential real estate | – | 267 | – | 267 | |
| Total | $ 11,464 | $ 40,590 | $ – | $ 52,054 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 10,801 | $ 21,473 | $ – | $ 32,274 | $ – |
| Production and intermediate term | 441 | 18,516 | – | 18,957 | – |
| Farm-related business | 166 | – | – | 166 | – |
| Rural residential real estate | – | 269 | – | 269 | – |
| Total | $ 11,408 | $ 40,258 | $ – | $ 51,666 | $ – |

| | Year Ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 5,242 | $ 3,008 | $ – | $ 8,250 | |
| Production and intermediate term | 5,177 | 25,972 | – | 31,149 | |
| Total | $ 10,419 | $ 28,980 | $ – | $ 39,399 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 5,241 | $ 3,011 | $ – | $ 8,252 | $ – |
| Production and intermediate term | 5,186 | 25,980 | – | 31,166 | – |
| Total | $ 10,427 | $ 28,991 | $ – | $ 39,418 | $ – |

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

The following table presents 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, | | |
|---|---|---|---|
| **Defaulted troubled debt restructurings** | **2021** | **2020** | **2019** |
| Real estate mortgage | $ 4,457 | $ 1,102 | $ 14 |
| Production and intermediate term | 1,533 | 1,106 | 563 |
| Rural residential real estate | 91 | – | – |
| Total | $ 6,081 | $ 2,208 | $ 577 |

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. 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 | $ 36,495 | $ 38,730 | $ 21,518 | $ 14,750 | $ 9,888 | $ 3,060 |
| Production and intermediate term | 9,493 | 12,484 | 21,408 | 4,536 | 5,168 | 9,064 |
| Farm-related business | 142 | 179 | 18 | 9 | 15 | 18 |
| Rural residential real estate | 635 | 711 | 624 | 163 | 221 | 242 |
| Total loans | $ 46,765 | $ 52,104 | $ 43,568 | $ 19,458 | $ 15,292 | $ 12,384 |
| Additional commitments to lend | $ 23 | $ 318 | $ 1,287 | | | |

## 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 determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $24,497 for 2021, $27,633 for 2020 and $30,387 for 2019. The Association owned 9.54 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 $2,680 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 | $ 2,776 | $ 2,844 | $ 2,844 |
| Buildings and improvements | 17,843 | 18,058 | 17,892 |
| Furniture and equipment | 8,835 | 9,060 | 8,189 |
| | 29,454 | 29,962 | 28,925 |
| Less: accumulated depreciation | 14,589 | 14,031 | 12,987 |
| Total | $ 14,865 | $ 15,931 | $ 15,938 |

## 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 and 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 1.42 percent for LIBOR-based loans and 1.55 percent for Prime-based loans, and the weighted average remaining maturities were 3.9 years and 1.7 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 2.41 percent, and the weighted average remaining maturity was 10.6 years at December 31, 2021. The weighted-average interest rate on all interest-bearing notes payable was 2.27 percent and the weighted-average remaining maturity was 9.5 years at December 31, 2021. Gross notes payable consisted of approximately 14.68 percent variable rate and 85.32

percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2021. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. 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. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or Class C 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 equal two percent of the loan amount or one thousand dollars, whichever is less. The Association's 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 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, usually as part of the loan proceeds and not as 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.

B. **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 revolvement, 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 revolvement 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:

| Ratio | Minimum Requirement | Capital Conservation Buffer* | Minimum Requirement with Capital Conservation Buffer | Capital Ratios as of December 31, 2021 | 2020 | 2019 |
|---|---|---|---|---|---|---|
| Risk-adjusted ratios: | | | | | | |
| CET1 Capital | 4.5% | 2.5% | 7.0% | 19.53% | 20.31% | 19.69% |
| Tier 1 Capital | 6.0% | 2.5% | 8.5% | 19.53% | 20.31% | 19.69% |
| Total Capital | 8.0% | 2.5% | 10.5% | 20.70% | 21.66% | 21.81% |
| Permanent Capital | 7.0% | 0.0% | 7.0% | 19.75% | 20.69% | 20.91% |
| Non-risk-adjusted ratios: | | | | | | |
| Tier 1 Leverage** | 4.0% | 1.0% | 5.0% | 20.91% | 21.68% | 20.78% |
| URE and UREE Leverage | 1.5% | 0.0% | 1.5% | 20.79% | 21.67% | 20.75% |

* *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.

C. **Description of Equities:** The Association is authorized to issue or have outstanding Classes A, C, D and E Common Stock, Class 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 | 2,142,497 | $ 10,713 |
| C Participation Certificates/Nonvoting | No | 220,296 | 1,101 |
| Total Capital Stock and Participation Certificates | | 2,362,793 | $ 11,814 |

At-risk common stock and participation certificates are retired at the sole discretion of the Association's Board of Directors 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 unallocated and allocated retained earnings accounts. The minimum aggregate amount of these two accounts is determined by the Association's Board of Directors. At the end of any fiscal year, if the retained earnings accounts would be less than the minimum amount deemed necessary to maintain adequate capital reserves to meet the commitments of the Association, earnings for the year shall be applied to the unallocated retained earnings account in such amounts deemed necessary by the Association's Board of Directors. 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 surplus 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 of Directors, may order any and all surplus account allocations owned by such borrower to be applied against the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board of Directors, provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained equity is considered to be permanently invested in the Association and there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed. At December 31, 2021, allocated members' equity consisted of $407,650 of nonqualified retained surplus.

*Voting Rights*

Classes A and E Common Stock and Class C Participation Certificates are nonvoting. Classes C and D Common Stock have voting rights. Each voting shareholder shall be entitled to only one vote.

*Dividends*

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed eight percent (8%) of the par value of the respective capital stock and participation certificates.

The rate of dividends paid on Classes A, C, D and E Common Stock and Class C 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.

*Patronage Distributions*

Prior to the beginning of any fiscal year, the Board of Directors, 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 each fiscal year. 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 of Directors. 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, C, D and E Common Stocks, and Class 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 shall be borne ratably by each share of Class A, C, D and E Common Stock and Class C Participation Certificates outstanding.

Impaired stock and participation certificates shall be restored in the reverse of the impairment sequence until each share of stock and participation certificates has a book value equal to its par or face value, respectively.

*Liquidation*

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

***First,*** to the holders of Class A Common Stock, Class C Common Stock, Class D Common Stock, Class E Common Stock, and Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

***Second,*** to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

***Third,*** to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and

***Fourth,*** insofar as is practicable, any remaining assets shall be distributed to past and present Patrons on a patronage basis in a fair and equitable manner determined by the Board or receiver.

D. **Accumulated Other Comprehensive Income (AOCI):**

**Changes in Accumulated Other Comprehensive Income by Component** *(a)*

| | For the Year Ended December 31, 2021 | 2020 | 2019 |
|---|---|---|---|
| **Employee Benefit Plans:** | | | |
| Balance at beginning of period | $ (495) | $ (372) | $ (198) |
| Other comprehensive income before reclassifications | 45 | (132) | (175) |
| Amounts reclassified from AOCI | 15 | 9 | 1 |
| Net current period OCI | 60 | (123) | (174) |
| Balance at end of period | $ (435) | $ (495) | $ (372) |

**Reclassifications Out of Accumulated Other Comprehensive Income** *(b)*

| | For the Year Ended December 31, 2021 | 2020 | 2019 | Income Statement Line Item |
|---|---|---|---|---|
| **Defined Benefit Pension Plans:** | | | | |
| Periodic pension costs | $ (15) | $ (9) | $ (1) | See Note 9. |
| Amounts reclassified | $ (15) | $ (9) | $ (1) | |

*(a) Amounts in parentheses indicate debits to AOCI.*
*(b) Amounts in parentheses indicate debits to profit/loss.*

**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 fair value 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 has no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2021.

**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 |
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Assets held in trust funds | $ 2,985 | $ 2,985 | $ – | $ – | $ 2,985 |
| Recurring Assets | $ 2,985 | $ 2,985 | $ – | $ – | $ 2,985 |
| **Liabilities:** | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 8,967 | $ – | $ – | $ 8,967 | $ 8,967 |
| Other property owned | 1,368 | – | – | 1,520 | 1,520 |
| Nonrecurring Assets | $ 10,335 | $ – | $ – | $ 10,487 | $ 10,487 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 344 | $ 344 | $ – | $ – | $ 344 |
| Loans | 3,001,644 | – | – | 2,982,289 | 2,982,289 |
| Other Financial Assets | $ 3,001,988 | $ 344 | $ – | $ 2,982,289 | $ 2,982,633 |
| **Liabilities:** | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 2,338,902 | $ – | $ – | $ 2,325,417 | $ 2,325,417 |
| Other Financial Liabilities | $ 2,338,902 | $ – | $ – | $ 2,325,417 | $ 2,325,417 |

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Assets held in trust funds | $ 2,826 | $ 2,826 | $ – | $ – | $ 2,826 |
| Recurring Assets | $ 2,826 | $ 2,826 | $ – | $ – | $ 2,826 |
| **Liabilities:** | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 11,459 | $ – | $ – | $ 11,459 | $ 11,459 |
| Other property owned | 1,661 | – | – | 1,846 | 1,846 |
| Nonrecurring Assets | $ 13,120 | $ – | $ – | $ 13,305 | $ 13,305 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 228 | $ 228 | $ – | $ – | $ 228 |
| Loans | 2,860,942 | – | – | 2,890,727 | 2,890,727 |
| Other Financial Assets | $ 2,861,170 | $ 228 | $ – | $ 2,890,727 | $ 2,890,955 |
| **Liabilities:** | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 2,229,163 | $ – | $ – | $ 2,255,469 | $ 2,255,469 |
| Other Financial Liabilities | $ 2,229,163 | $ – | $ – | $ 2,255,469 | $ 2,255,469 |

| December 31, 2019 | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|---|
| **Recurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Assets held in trust funds | $ 2,687 | $ 2,687 | $ – | $ – | $ 2,687 |
| Recurring Assets | $ 2,687 | $ 2,687 | $ – | $ – | $ 2,687 |
| **Liabilities:** | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – |
| **Nonrecurring Measurements** | | | | | |
| **Assets:** | | | | | |
| Impaired loans | $ 11,448 | $ – | $ – | $ 11,448 | $ 11,448 |
| Other property owned | 1,415 | – | – | 1,572 | 1,572 |
| Nonrecurring Assets | $ 12,863 | $ – | $ – | $ 13,020 | $ 13,020 |
| **Other Financial Instruments** | | | | | |
| **Assets:** | | | | | |
| Cash | $ 3,508 | $ 3,508 | $ – | $ – | $ 3,508 |
| Loans | 2,802,248 | – | – | 2,801,621 | 2,801,621 |
| Other Financial Assets | $ 2,805,756 | $ 3,508 | $ – | $ 2,801,621 | $ 2,805,129 |
| **Liabilities:** | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 2,192,656 | $ – | $ – | $ 2,199,173 | $ 2,199,173 |
| Other Financial Liabilities | $ 2,192,656 | $ – | $ – | $ 2,199,173 | $ 2,199,173 |

***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 at December 31, 2021**

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|---|---|---|---|
| Impaired loans and other property owned | $ 10,487 | 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<br>Probability of default<br>Loss severity |
| Notes payable to AgFirst Farm Credit Bank | Discounted cash flow | Prepayment forecasts<br>Probability of default<br>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 $5,739 for 2021, $4,514 for 2020, and $4,110 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 $640 for 2021, $633 for 2020, and $613 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, 2019, and 2018, 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 $1,642, $1,435, and $1,284 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.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2021, 2020, and 2019, $60, $(123) and $(174), respectively, has been recognized as a net credit, a net debit and a net debit, respectively, to AOCI to reflect these elements.

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 nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $1,835 and a net under-funded status of $1,835 at December 31, 2021. Assumptions used to determine the projected benefit obligation as of December 31, 2021 included a discount rate of 2.90 percent. The expenses of these nonqualified plans included in noninterest expenses were $84, $82, and $83 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 $26,464. During 2021, $8,500 of new loans were made and repayments totaled $6,843. In the opinion of management, none of these loans outstanding at December 31, 2021 involved more than a normal risk of collectibility.

## 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, $515,645 of commitments to extend credit and $108 of commercial letters of credit were outstanding. The reserve for unfunded commitments totaled $1,500 at December 31, 2021, and was 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 $3,482 with expiration dates ranging from January 1, 2022 to August 19, 2026. The maximum potential amount of future payments that may be required under these guarantees was $3,482.

## Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Current: | | | |
| Federal | $ 253 | $ 437 | $ 30 |
| State | 113 | 94 | 30 |
| | 366 | 531 | 60 |
| Deferred: | | | |
| Federal | – | – | – |
| State | – | – | – |
| | – | – | – |
| Total provision (benefit) for income taxes | $ 366 | $ 531 | $ 60 |

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 | $ 18,765 | $ 16,645 | $ 13,405 |
| State tax, net | 113 | 94 | 48 |
| Patronage distributions | (17,598) | (10,815) | (3,570) |
| Tax-exempt FLCA earnings | (15,691) | (13,498) | (10,641) |
| Dividends from tax-exempt FLCA | 15,410 | 8,512 | 434 |
| Change in deferred tax asset valuation allowance | (841) | (275) | 453 |
| Impact of tax reform | – | – | – |
| Other | 208 | (132) | (69) |
| Provision (benefit) for income taxes | $ 366 | $ 531 | $ 60 |

Deferred tax assets and liabilities are comprised of the following at:

| | December 31, | | |
|---|---|---|---|
| | 2021 | 2020 | 2019 |
| Deferred income tax assets: | | | |
| Allowance for loan losses | $ 4,577 | $ 5,151 | $ 5,100 |
| Net operating loss – carryforward | 253 | 553 | 608 |
| Nonaccrual loan interest | 563 | 558 | 762 |
| Other | 257 | 253 | 275 |
| Gross deferred tax assets | 5,650 | 6,515 | 6,745 |
| Less: valuation allowance | (2,017) | (3,016) | (3,656) |
| Gross deferred tax assets, net of valuation allowance | 3,633 | 3,499 | 3,089 |
| Deferred income tax liabilities: | | | |
| Bank patronage allocation | (2,982) | (2,855) | (2,337) |
| Loan fees | (651) | (644) | (752) |
| Other | – | – | – |
| Gross deferred tax liability | (3,633) | (3,499) | (3,089) |
| Net deferred tax asset | $ – | $ – | $ – |

At December 31, 2021, deferred income taxes have not been provided by the Association on approximately $17.8 million 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 $2,017, $3,016 and $3,656 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.

At December 31, 2021 the Company has Federal loss carryforwards totaling approximately $253 that expire in varying amounts beginning in 2033. The valuation allowance at December 31, 2021 was primarily related to allowance for loan losses and federal loss carryforwards that, in the judgement of management, are more likely than not to expire before realized. In evaluating the Company's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

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 2017 and forward.

## Note 13 — Additional Financial Information

***Quarterly Financial Information (Unaudited)***

| | 2021 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 19,068 | $ 18,924 | $ 19,519 | $ 20,213 | $ 77,724 |
| Provision for (reversal of allowance for) loan losses | – | – | – | (5,000) | (5,000) |
| Noninterest income (expense), net | (6,943) | (5,614) | (5,752) | 24,578 | 6,269 |
| Net income | $ 12,125 | $ 13,310 | $ 13,767 | $ 49,791 | $ 88,993 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 18,845 | $ 17,322 | $ 16,985 | $ 22,917 | $ 76,069 |
| Provision for (reversal of allowance for) loan losses | 1,000 | 2,000 | 1,000 | 1,000 | 5,000 |
| Noninterest income (expense), net | (4,868) | (3,426) | (4,194) | 20,151 | 7,663 |
| Net income | $ 12,977 | $ 11,896 | $ 11,791 | $ 42,068 | $ 78,732 |

| | 2019 | | | | |
|---|---|---|---|---|---|
| | First | Second | Third | Fourth | Total |
| Net interest income | $ 18,270 | $ 18,162 | $ 18,481 | $ 18,664 | $ 73,577 |
| Provision for (reversal of allowance for) loan losses | 1,000 | 1,000 | 1,000 | 1,000 | 4,000 |
| Noninterest income (expense), net | (4,547) | (4,804) | (4,486) | 8,032 | (5,805) |
| Net income | $ 12,723 | $ 12,358 | $ 12,995 | $ 25,696 | $ 63,772 |

## Note 14 — Merger Activity

On August 27, 2021, the Board of Directors of the Association and AgChoice Farm Credit, ACA signed a letter of intent to merge the two associations and entered into an Agreement and Plan of Merger. The merger has been approved by AgFirst and is subject to FCA and shareholder approval. If approved by all required parties, the merger is expected to take effect upon the commencement of business on July 1, 2022.

## Note 15 — Subsequent Events

The Association evaluated subsequent events and determined that aside from the event listed below there were no other events requiring disclosure through March 10, 2022, which was the date the financial statements were issued.

On February 10, 2022 Association Board of Directors approved an additional $3,400 2021 cash patronage distribution to be paid out in 2022. This increases the total cash patronage distribution from $80,500 as disclosed in the Annual Report to $83,878.

# BOARD of DIRECTORS


**Brian L. Boyd**
Chairman


**T. Jeffery Jennings**
Vice Chairman


**Paul D. Baumgardner**


**Julie A. Bolyard**


**Laura M. Heilinger**


**John Travis Hastings**


**Anthony M. III**
Outside Director


**Fred R. Moore, Jr.**


**Michael S. Nelson**


**Jennifer L. Rhodes**


**Douglas D. Scott**


**Alan N. Siegfried**
Outside Director


**David R. Smith**


**Fred N. West**


**Charles M. Wright IV**

# EXECUTIVE LEADERSHIP TEAM

**Thomas H. Truitt, Jr.**
President &
Chief Executive Officer

**Cathy L. Blair**
Sr. Vice President,
Corporate Services

**Stuart D. Cooper**
Sr. Vice President,
Chief Lending Officer

**Kurt H. Fuchs**
Sr. Vice President,
Legislative Affairs

**Bessie H. Moy**
Sr. Vice President,
Chief Audit Executive

**Tammy L. Price**
Sr. Vice President,
Director of Technology
and Strategic Partnerships

**Brian E. Rosati**
Sr. Vice President,
Chief Financial Officer

**William J. Rutter**
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Chief Credit Officer

**Cheryl L. Steinbacher**
Sr. Vice President,
Director of Human
Resources and Training

**Karen S. Swecker**
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