FARM CREDIT
OF FLORIDA

Annual Report 2021

FARM CREDIT OF FLORIDA, ACA

2021 ANNUAL REPORT

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Management

Marcus A. Boone....President & Chief Executive Officer
Deborah Caldeira....Chief Human Resources Officer
Laura Craker....Chief Financial Officer
April Dawn Goodspeed....Chief Operations and IT Officer
Roland Kampf....Chief Risk Officer
Ashley Layson....Chief Marketing Officer
John Quinlan....Chief Legal Officer
Jonathan Ray....Chief Credit Officer
Robert W. Teston....Chief Operating Officer

Board of Directors

W. Eric Hopkins....Chairman, Appointed Stockholder Director
Bobby G. "Bob" Lines....Vice Chairman
John L. Alger....Director
Tobin J. "Toby" Basore....Director
Howard P. "Rowdy" Bateman....Director
Roger W. Davis....Director
Joseph C. Joyce....Outside Director
Martin J. "Marty" McKenna....Director
John R. Newbold, III....Director
Harrell H. "Hal" Phillips, Jr.....Director
Francisco J. Pines....Outside Director
Robert G. "Bobby" Sexton....Director
Lisa Sherman....Appointed Stockholder Director
Wayne H. Simmons....Director
Donald G. "Don" Tanner, Jr.....Director
Amanda E. Taylor....Outside Director

Message from the President & Chief Executive Officer

The year 2021 was again full of challenges as we continued to work through the continuing pandemic issues facing our nation and our state. We know that our customers are dealing with transportation and supply shortages as well as rising costs of inputs. Notwithstanding, your association Board of Directors and staff have worked hard to assure that we continue to provide a high level of customer service to our members. Farm Credit of Florida has positioned itself to continue to serve your ongoing business and personal financial needs.

The good news is despite the current economic challenges, your Association is proud to report 2021 was a year of advancements in operations and sound financial results. We reported final net income of $39.9 million, representing a Return on Assets of 2.89%. We continued to grow loan assets by $70.1 million with total loan assets at year end of $1.4 billion or 5.3% growth rate. With these financial results, your Association remains strong with member equity of $319.8 million, an increase of $22.6 million with a total regulatory capital ratio of 20.06%.

You, our members, continue to benefit from our growth and successful financial results. In the spring of 2021, your Association retuned a cash patronage distribution of $14.5 million to its stockholder/members and crop insurance customers. After another successful year in 2021, your Board of Directors have approved a distribution of **$17.5 million in cash patronage** to be paid in the spring of 2022. This increase represents a real benefit from your ownership and participation in the Association. Our patronage program effectively lowers your stated interest rate.

During 2021, Rob Teston announced his intention to retire on March 31, 2022 after more than 47 years in the Farm Credit System. Your Board of Directors launched a nation-wide search and thoroughly vetted many candidates. Recently Board Chairman, Eric Hopkins, announced the selection of Marcus Boone as your new CEO effective January 1, 2022. Marcus was selected because of his passion for Farm Credit of Florida's customers and our team members, leadership, and business knowledge. Marcus has over 40 years of experience with Farm Credit, beginning his career in his native state of Georgia. After working with two different associations in Georgia, Marcus moved to Florida and began a 21 year career with Farm Credit of Central Florida. His Farm Credit journey then took him to the Farm Credit Bank of Texas, serving as Vice President/Unit Manager of the Association Direct Lending Unit. Marcus returned to Florida in 2013 as our Chief Lending Officer and has been a great visionary leader in growing and improving your Association.

Some things in Florida agriculture don't change much. We make investments in land, equipment, and crops and always hope to have successful outcomes. Farm Credit of Florida will continue to be your trusted partner as you continue to invest in your operation. In addition to loans for land, equipment, and crops, we also provide other services such as "point of sale equipment financing" through Farm Credit Express. We have a dedicated staff of crop insurance agents whose sole responsibility is to provide insurance for your valuable crops and are happy to consult with you on cost effective strategies.

Thank you for doing business with Farm Credit of Florida. We are proud to have had Rob Teston as a part of the success we have achieved over the last nine years.

Sincerely,

Marcus A. Boone
President and Chief Executive Officer

Robert W. Teston
Chief Operating Officer *(President Emeritus)*

March 10, 2022

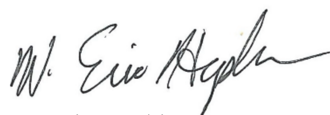
Report of Management

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

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

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

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



W. Eric Hopkins
Chairman of the Board

Marcus A. Boone
Chief Executive Officer

Laura Craker
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.

Marcus A. Boone
Chief Executive Officer

Laura Craker
Chief Financial Officer

March 10, 2022

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2021	2020	December 31, 2019	2018	2017
Balance Sheet Data					
Cash	**$ 16**	$ 14	$ 561	$ 331	$ 211
Investments in debt securities	**2,286**	2,589	3,760	4,224	5,467
Loans	**1,401,695**	1,331,550	1,270,427	1,163,920	1,131,004
Allowance for loan losses	**(9,078)**	(10,043)	(8,321)	(9,186)	(7,774)
Net loans	**1,392,617**	1,321,507	1,262,106	1,154,734	1,123,230
Equity investments in other Farm Credit institutions	**13,775**	14,991	15,119	14,712	13,940
Other property owned	**—**	—	31	73	95
Other assets	**39,907**	36,394	30,217	30,646	28,641
Total assets	**$ 1,448,601**	$1,375,495	$1,311,794	$1,204,720	$1,171,584
Notes payable to AgFirst Farm Credit Bank*	**$ 1,094,413**	$1,048,130	$1,005,717	$ 915,039	$ 894,913
Accrued interest payable and other liabilities with maturities of less than one year	**34,381**	30,147	26,743	24,543	24,261
Total liabilities	**1,128,794**	1,078,277	1,032,460	939,582	919,174
Protected borrower stock	**445**	445	445	445	445
Capital stock and participation certificates	**2,968**	2,803	2,633	2,543	2,452
Additional paid-in-capital	**7,873**	7,873	7,873	7,873	7,873
Retained earnings					
Allocated	**135,975**	127,974	121,989	118,040	114,789
Unallocated	**172,785**	158,384	146,634	136,432	127,089
Accumulated other comprehensive income (loss)	**(239)**	(261)	(240)	(195)	(238)
Total members' equity	**319,807**	297,218	279,334	265,138	252,410
Total liabilities and members' equity	**$ 1,448,601**	$1,375,495	$1,311,794	$1,204,720	$1,171,584
Statement of Income Data					
Net interest income	**$ 35,206**	$ 34,119	$ 34,563	$ 33,659	$ 30,093
Provision for (reversal of allowance for) loan losses	**(1,580)**	1,514	(538)	2,321	28
Noninterest income (expense), net	**3,118**	(368)	(7,948)	(5,993)	(3,817)
Net income	**$ 39,904**	$ 32,237	$ 27,153	$ 25,345	$ 26,248
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.89%**	2.43%	2.22%	2.19%	2.41%
Total members' equity	**12.80%**	11.05%	9.79%	9.63%	10.56%
Net interest income as a percentage of average earning assets	**2.60%**	2.62%	2.88%	2.97%	2.83%
Net (chargeoffs) recoveries to average loans	**0.045%**	0.016%	(0.027)%	(0.080)%	0.112%
Total members' equity to total assets	**22.08%**	21.61%	21.29%	22.01%	21.54%
Debt to members' equity (:1)	**3.53**	3.63	3.70	3.54	3.64
Allowance for loan losses to loans	**0.65%**	0.75%	0.66%	0.79%	0.69%
Permanent capital ratio	**19.56%**	18.99%	19.32%	19.88%	19.77%
Common equity tier 1 capital ratio	**19.45%**	18.87%	19.21%	19.73%	19.64%
Tier 1 capital ratio	**19.45%**	18.87%	19.21%	19.73%	19.64%
Total regulatory capital ratio	**20.06%**	19.56%	19.81%	20.52%	20.34%
Tier 1 leverage ratio	**22.13%**	21.17%	21.32%	21.84%	21.67%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**18.01%**	16.94%	16.82%	16.85%	16.37%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 17,500**	$ 14,500	$ 13,000	$ 12,750	$ 11,500
Nonqualified retained earnings	**6,792**	4,956	3,782	4,132	5,387

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

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for more than 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 south and north east Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.farmcreditfl.com*** or by calling 1-800-432-4156, extension 3070, or writing Laura Craker, Chief Financial Officer, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421. 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 Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

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 majority of the Association has returned to pre-pandemic working conditions with some contingent of staff working remotely.

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.

During 2020 and 2021, the Association was approved as a PPP lender and made $7.7 million in loans. In addition, through December 31, 2021, the volume of such loans that have received forgiveness from the SBA since the start of the program was $7.7 million.

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 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.

- *Acquisition accounting* — Acquisitions are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangible assets, and assumed liabilities are recorded at their respective acquisition date fair values. See *Valuation methodologies* section below. The purchase date valuations and any subsequent adjustments also determine the amount of goodwill or bargain purchase gain recognized in connection with the business combination. Certain assumptions and estimates must be updated regularly in connection with the ongoing accounting for purchased loans. Valuation assumptions and estimates may also have to be revisited in connection with periodic assessments of possible value impairment, including impairment of goodwill, intangible assets and certain other long-lived assets. The use of different assumptions could produce significantly different valuation results, which could have material positive or negative effects on the Association's 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

On March 13, 2020, the United States Government proclaimed a national emergency due to the crisis related to COVID-19 which has significantly affected overall economic conditions. Shortly after, the State of Florida issued a statewide 'stay at home' order commencing on April 3, 2020 and ending April 30, 2020. A major component of the order was that all non-essential businesses and all schools were required to remain closed during this period, with most counties and municipalities electing to stay closed longer or reopen at a limited capacity. Some of the most affected non-agriculture businesses included tourism, hospitality and restaurants. The closing of restaurant and food service related businesses, along with school closings statewide, initially had significant effects on many fruit and vegetable growers as well as dairy producers. Cattle producers were also impacted by the extended restaurant closings in addition to the temporary closure and/or reduced capacity at several processing plants as they battled an increase of employee infections. In addition, spring sales for certain nursery growers were affected by shipping limitations to other states and countries as well as a reduction of social events resulting in order cancellations.

During the last half of 2021, there has been a resurgence in variants of the virus, the Delta and Omicron variants, with many states implementing mask-wearing and vaccine mandates and even reinstituting previous restrictions on certain businesses. While many industries have shown some signs of recovery following the reopening of non-essential businesses, others still face challenges within the supply chains in addition to other macroeconomic headwinds. Supply constraints have led to marked increases in the prices of many goods and services, pushing the CPI inflation rate up to 7%, the largest one year increase since 1982 and the highest rate in roughly 13 years. Bottlenecks remain severe across supply chains. The number of ships awaiting anchor at the west coast ports hit a record high in September, while inventories remain exceptionally low. Consumer goods inflation has reached a 40+ year high as a result. The Florida unemployment rate was 4.5% at the end of November 2021, comparing unfavorably to the national average of 4.2%. Florida's unemployment rate rebounded after exceeding 14% earlier in 2020, however leisure and hospitality continue to trail other sectors in job recovery.

Beginning in early April 2020, management offered payment deferral programs and small new money advances to qualified borrowers affected by COVID-19 as part of a COVID-19 Borrower Relief Plan. The Plan also included loans originated under the SBA Paycheck Protection Program. These efforts yielded positive results as overall payment performance and credit quality has remained satisfactory. Despite some stabilizing trends, management will continue monitoring the economic impacts that COVID-19 has on its borrowers and loan portfolio as some credit quality deterioration and credit losses may still occur. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, will help mitigate the losses associated with COVID-19. Starting in early April 2020 and continuing throughout most of 2021, the U.S. Congress passed numerous relief bills to offset some of the economic impact. The Coronavirus Food Assistance Program ("CFAP") administered by the United States Department of Agriculture has paid-out or approved over $30 billion to various agricultural industries with $450 million going to producers in the State of Florida. The Association is well capitalized and maintains adequate allowance for loan losses, which allows us to withstand stress in our loan portfolio.

Most commodity groups within the portfolio have experienced generally favorable operating results over the last two production seasons; however, citrus producers remain impacted by citrus greening disease while the dairy industry continues to be negatively impacted by prolonged commodity price declines. The various challenges from citrus greening disease has caused reduced production and declines in overall profitability for most producers. The final USDA production report indicates a 22% decrease in production for the 2020-2021 citrus crop, following a 6% decline the previous season. Despite these factors, the Association's citrus portfolio has continued to perform satisfactorily with performance issues isolated to only a few stressed growers. The dairy industry has also remained under stress due to supply and demand dynamics, in addition to the recent rise in feed costs. Most of the Association's dairy loans are to the fluid milk producers who have experienced depressed commodity prices for several years. While the declining price trend has leveled off, increasing feed costs has kept most producers below profitable levels. Due to these significant stresses, a large portion of the Association's dairy loan portfolio is criticized.

The horticultural or nursery segment remains strong as residential construction and the overall housing market continues to see increasing demand. The forestry industry has also experienced favorable conditions backed by an improving housing market, although global trade remains a concern. The beef cattle industry has seen declining price trends for several periods prior to stabilizing in late 2020 with continued improvement through 2021 as processors work through the backlog of supply and demand remains strong. Most cattle producers are expected to remain profitable, albeit below historical levels should feed costs remain elevated.

Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. Florida has experienced typical weather patterns and no weather events have had a material impact on borrowers over the past 12 months. Land values in the north region continue to exhibit stability since their improvement in 2014 with some areas increasing in value. Land values in the south region show stability with values increasing in more urban areas. Overall, land value sale surveys indicate land values are stable with increasing trends seen in certain segments.

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 Association's 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	$ 812,859	57.99%	$ 786,779	59.09%	$ 737,276	58.03%
Production and intermediate-term	240,827	17.18	230,625	17.32	233,972	18.42
Processing and marketing	153,768	10.97	132,886	9.98	129,685	10.21
Communication	62,935	4.49	57,207	4.30	49,457	3.89
Farm-related business	38,326	2.73	36,316	2.73	40,289	3.17
Loans to cooperatives	35,781	2.55	35,984	2.70	26,406	2.08
Power and water/waste disposal	22,916	1.63	20,262	1.52	26,335	2.07
Rural residential real estate	18,010	1.28	13,571	1.02	10,088	0.79
International	11,011	0.79	12,332	0.93	11,011	0.87
Other (including Mission Related)	5,262	0.39	5,588	0.41	5,908	0.47
Total	$ 1,401,695	100.00%	$ 1,331,550	100.00%	$ 1,270,427	100.00%

While the Association makes loans to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio remains diversified by type, commodity, and region.

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

Branch	December 31, 2021	2020	2019
West Palm	17.58%	14.69%	15.70%
Homestead	10.45%	8.66%	7.49%
Ocala	9.77%	9.10%	8.47%
Alachua	7.32%	8.22%	8.10%
LaBelle	4.32%	5.63%	5.50%
Wauchula	4.27%	5.94%	7.33%
Palatka	4.05%	4.09%	4.70%
Okeechobee	3.98%	4.41%	4.91%
Vero Beach	3.62%	3.32%	2.97%
Arcadia	3.57%	4.71%	4.16%
Trenton	3.30%	3.28%	3.90%
Live Oak	2.48%	2.48%	2.79%
Lake Placid	0.43%	0.32%	0.32%
Purchased Loans	24.86%	25.15%	23.66%
Total	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industry 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 in the following table. The predominant commodities are field crops, equine, nursery/greenhouse, cattle, tree fruits and nuts, and forestry, which constitute over 74 percent of the entire portfolio. From 2019 to year end 2021, the nursery group's outstanding volume increased. During the past recession, the nursery portfolio was adversely impacted by the economy and resulted in declining credit quality and a large number of nonperforming loans. As the Florida and national economy has improved, the nursery industry has experienced improving markets and financial results. Trees, landscape plants and sod are dependent on a vibrant home and commercial construction industry while flowering plants and foliage are dependent upon the general economy and discretionary spending of consumers. Increases in field crops, equine, forestry, and tree fruits and nuts are due to origination of new loans in these commodity segments. The Association has experienced increases in equine and row and field crops in both the north and south Florida regions. Decline in forestry resulted from early loan payoffs on a few larger accounts that offset new loan demand in the segment.

Commodity Group	December 31, 2021		2020		2019	
	(dollars in thousands)					
Field Crops	$ 227,887	16.25%	$ 212,459	15.95%	$ 219,134	17.26%
Equine	205,777	14.67	184,971	13.89	170,634	13.44
Nursery/Greenhouse	170,413	12.16	140,843	10.58	118,083	9.29
Cattle	160,716	11.47	156,041	11.72	163,255	12.85
Tree Fruits and Nuts	152,013	10.84	135,557	10.18	124,666	9.81
Forestry	126,776	9.04	147,370	11.07	144,910	11.41
Processing	83,157	5.93	76,674	5.76	75,320	5.93
Utilities	76,053	5.43	72,429	5.44	60,122	4.73
Dairy	39,060	2.79	48,083	3.61	44,214	3.48
Other Real Estate	22,850	1.63	31,837	2.39	30,085	2.37
Rural Home Loan	18,301	1.31	14,172	1.06	10,928	0.86
Grain	16,792	1.20	17,774	1.33	11,928	0.94
Swine	12,288	0.88	12,719	0.96	12,823	1.01
Tobacco	11,976	0.85	10,668	0.80	9,209	0.72
Poultry	6,254	0.45	7,794	0.59	7,427	0.58
Corn	1,343	0.10	1,348	0.10	1,449	0.11
Others	70,039	5.00	60,811	4.57	66,240	5.21
Total	$ 1,401,695	100.00%	$ 1,331,550	100.00%	$ 1,270,427	100.00%

The primary increase in loan volume during the last three years is the result of increased demand for credit in the market and more concerted marketing efforts by Association lenders. Repayment ability remains closely related to the commodities produced by our borrowers with some having supplemental nonfarm income. The Association enjoys a diverse commodity portfolio mix with no significant single concentration. While Field Crops is reflected at 16.25 percent of the total portfolio, the group represents a broad classification that includes sugarcane as well as various fruits and vegetables grown throughout the Association's territory. Many of these operations are vertically integrated with processing, sales and marketing which increases their profitability and reduces credit risk to the Association. The Nursery/Greenhouse group, which represents 12.16 percent of the portfolio, is similar to Field Crops in that the classification is also considered broad and covers interior foliage and exterior landscape plants, trees, and sod products with very different market characteristics and credit risk profiles. Citrus, which is included in Tree Fruits and Nuts commodity group, represents approximately 10.84 percent of the portfolio. Many citrus customers have diversified sources of farm and nonfarm income. The Equine and Timber groups, at approximately 14.67 percent and 9.04 percent, respectively, also have diversified income sources. For purposes of calculating concentration risks, each loan is classified by the principal product grown. However, many operations produce a number of products in addition to the principal product, thus reducing overall risks to the operation and the Association. In addition, the Association also segments repayment based on whether the primary repayment source is from agricultural or nonfarm personal and business income. Approximately 27.95 percent of agricultural loans have nonfarm income sources as the primary repayment source.

The Association continues to see a minor shift in loan assets. The Association grew volume in long-term real estate loans and capital market purchases. Short and intermediate-term volume was up slightly in 2021 after experiencing a decline during the previous year. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in the fall and rapidly declines in the late spring and early summer months as commodities are marketed and proceeds are applied to repay operating loans. The Association continues to exhibit new loan growth in commercial corporate market transactions.

The Association remains active in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position.

	December 31,		
Loan Participations:	**2021**	**2020**	**2019**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 351,297	$ 338,760	$ 307,466
Participations Purchased – Non-FCS Institutions	5,238	6,163	5,723
Participations Sold	(267,386)	(283,794)	(323,147)
Total	$ 89,149	$ 61,129	$ (9,958)

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

The Association sells qualified long-term mortgage residential loans into the secondary market. For the periods ended December 31, 2021, 2020 and 2019, the Association originated loans for resale totaling $39,145, $39,383, and $30,664, 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 $0, $8, and $15, respectively, that are 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion is guaranteed by various governmental entities for the purposes of reducing risk. At December 31, 2021, 2020, and 2019, the balance of these loans was $30,105, $32,532, and $34,852, respectively.

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, or 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 is 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. As of December 31, 2021, the Association had $6,734 in Rural America Bonds, of which $5,220 was classified as Loans and $1,514 were classified as Investments on the Consolidated Balance Sheets. As of December 31, 2020, the Association had $7,092 in Rural America Bonds, of which $5,536 was classified as Loans and $1,556 were classified as Investments. As of December 31, 2019, the Association had $8,262 in Rural America Bonds, of which $5,839 were classified as Loans and $2,423 was classified as Investments.

Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

Refer to Note 4, *Investments,* of the Notes to the Consolidated Financial Statements for additional information regarding these Mission Related Investments.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for risk management purposes. The Bank is responsible for approving the investment activities of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist primarily of asset-backed securities (ABS). The ABS investments amounted to $772 at December 31, 2021, $1,033 at December 31, 2020 and $1,337 at December 31, 2019. These investments are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be required by our regulator to dispose of the security. At December 31, 2021, the Association held no Rural America Bonds whose credit quality had deteriorated beyond the program limits.

Investment securities classified as being held-to-maturity totaled $2,286 at December 31, 2021, $2,589 at December 31, 2020 and $3,760 at December 31, 2019. These held-to-maturity investments consist of pools of loans with United States government guarantees.

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 – purpose of the loan and prevailing industry / economic outlook

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. Long term mortgage real estate loans must be collateralized by title insured first mortgage liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a long term 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 Association's collateral standards normally result in actual loan to appraised value lower than the statutory maximum percentage. Appraisals are required for non-business purpose loans of more than $250,000 or for business purpose loans of more than $1 million. At origination, each loan is assigned a credit risk rating based upon the Association's loan 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 Combined System 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 a well-defined 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 excluding impact of financial marks as a result of the merger at December 31.

Credit Quality	2021	2020	2019
Acceptable & OAEM	97.77%	97.62%	98.99%
Substandard	2.23%	2.38%	1.01%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Portfolio credit quality improved during 2021 as a result of a decline in substandard nonaccrual assets and growth in acceptable assets. The primary decrease in substandard nonaccrual loans is due to liquidations and principal reductions from collateral sales and improvement of loans in the cattle commodity group.

Nonperforming Assets

The Association's loan portfolio is divided into performing and nonperforming categories. A Special Assets Management Department is responsible for servicing loans classified as nonperforming. The nonperforming assets, including accrued interest, are detailed in the following table:

	December 31,		
Nonperforming Assets	**2021**	**2020**	**2019**
	(dollars in thousands)		
Nonaccrual loans	$ 4,649	$ 8,193	$ 6,918
Accruing restructured loans	613	889	718
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	5,262	9,082	7,636
Other property owned	–	–	31
Total nonperforming assets	$ 5,262	$ 9,082	$ 7,667
Ratios:			
Nonaccrual loans to total loans	0.33%	0.62%	0.54%
Nonperforming assets to total assets	0.36%	0.66%	0.58%

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 $3,544 or 43.26 percent in 2021 after having increased $1,275 or 18.43 percent in 2020. The primary decrease in 2021 resulted from repayments in the nursery/fern commodity group and transfers of loans to accrual status in the cattle commodity group due to improved performance. Nursery continues to represent the largest percentage of total nonaccrual loans at approximately 38.50 percent at December 31, 2021 with a majority concentrated in one account. Of the $4,649 in nonaccrual volume at December 31, 2021, $3,026 or 65.09 percent, compared to 39.07 percent and 35.14 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.

At December 31, 2021, there were no properties or equipment included in other property owned. The number of pieces of equipment declined by two during 2021 with sales of equipment outpacing no acquisitions during the year, resulting in the decline.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2021**	**2020**	**2019**
	(dollars in thousands)		
Balance at beginning of year	$ 10,043	$ 8,321	$ 9,186
Charge-offs:			
Real estate mortgage	(13)	–	–
Production and intermediate-term	(16)	(140)	(1,388)
Rural Residential Real Estate	–	–	(7)
Total charge-offs	(29)	(140)	(1,395)
Recoveries:			
Real estate mortgage	446	253	450
Production and intermediate-term	197	78	583
Agribusiness	–	12	28
Rural Residential Real Estate	1	5	7
Total recoveries	644	348	1,068
Net (charge-offs) recoveries	615	208	(327)
Provision for (reversal of allowance for) loan losses	(1,580)	1,514	(538)
Balance at end of year	$ 9,078	$ 10,043	$ 8,321
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.045%	0.016%	(0.027)%

The loan recoveries in 2021, 2020, and 2019 were primarily associated with Nursery/Greenhouse and Non-Farm Income commodity groups. Due to the improvement in collateral values and return of credit availability in the market, several nonaccrual loans within these commodity groups were fully collected during the year. The charge-offs in 2021 were primarily in the field crops commodity group, charge-offs in 2020 were primarily in the field crops and nursery commodity groups, and charge-offs in 2019 were primarily in the field crops commodity group. The Association was able to reverse $1,580 of the allowance for loan losses in 2021 due to lower specific reserves required on nonperforming loans along with recoveries received of amounts previously charged-off. The Association recorded a provision for loan losses of $1,514 in 2020 primarily attributed to estimated economic impacts of COVID-19. The Association was able to reverse $538 of the allowance for loan losses in 2019 due to lower reserves required from improvement in credit quality along with recoveries received of amounts previously charged-off.

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

	December 31,		
Allowance for Loan Losses by Type	**2021**	**2020**	**2019**
	(dollars in thousands)		
Real estate mortgage	$ 3,166	$ 4,414	$ 3,307
Production and intermediate-term	4,038	3,682	3,223
Agribusiness	1,541	1,562	1,388
Communication	171	155	140
Power and Water/Waste Disposal	78	145	187
Rural residential real estate	74	74	67
International	9	10	8
Other (including Mission Related)	1	1	1
Total Allowance for Loan Losses	$ 9,078	$ 10,043	$ 8,321

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	0.65%	0.75%	0.65%
Total nonperforming loans	172.52%	110.58%	108.97%
Nonaccrual loans	195.27%	122.58%	120.28%

The allowance for loan losses at December 31, 2021, 2020 and 2019 does not include $809 thousand, $1.2 million and $1.8 million, respectively of net purchase discounts related to the acquired loans. The allowance for these loans was not carried forward at acquisition per accounting guidance. However, they were purchased at a net discount, which is the direct reduction to the recorded loan amount, to reflect the credit and market metrics related to the acquired portfolios.

At December 31, 2021, the amount of credit risk reduction, in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.06% for Total loans, 15.37% of Total nonperforming loans and 17.40% of Nonaccrual loans.

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2021, totaled $39,904, an increase of $7,667 or 23.78 percent, as compared to net income of $32,237 for the same period of 2020 and an increase of $12,751 or 46.96 percent, as compared to net income of $27,153 for the same period of 2019. The increase in net income for the year ending 2021 as compared to 2020 is attributed to an increase in noninterest income along with a decrease in provision for loan losses expense. The increase in noninterest income is attributed to an increase in fees for financially related services and an increase in patronage refunds from other Farm Credit institutions. The decrease in provision for loan losses expense resulted from lower specific reserves required on nonperforming loans.

Net Interest Income

Net interest income was $35,206, $34,119 and $34,563 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	$ 2,477	$ (4,536)	$ 709	$ (1,350)
Interest expense	731	(3,168)	–	(2,437)
Change in net interest income	$ 1,746	$ (1,368)	$ 709	$ 1,087
12/31/20 - 12/31/19				
Interest income	$ 5,711	$(10,847)	$ (363)	$ (5,499)
Interest expense	3,006	(8,061)	–	(5,055)
Change in net interest income	$ 2,705	$ (2,786)	$ (363)	$ (444)

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

Net interest income increased by $1,087 or 3.19 percent in 2021 compared to 2020 and decreased by $444 or 1.28 percent in 2020 compared to 2019. The primary reason for the increase during 2021 compared to 2020 is due to an increase in nonaccrual income along with an increase in average volume outstanding during 2021. The increase in net interest income during 2021 results from an increase of $1,746 attributed to an increase in volume and an increase of $709 attributed to an increase in nonaccrual income offset by a decrease of $1,368 attributed to a decrease in rates. The Association's net interest income as a percentage of average earning assets was 2.60 percent in 2021, compared to 2.62 percent and 2.88 percent in 2020 and 2019, respectively. The decrease in this ratio is primarily a result of the increased cost of funding LIBOR variable rate loans during 2020 and 2021.

The primary reason for the decrease in net interest income during 2020 compared to 2019 is due to a decrease in interest income on variable rate loans resulting from lowering of the target range for the federal funds rate by the Federal Reserve over the past 12 months offset by an increase in average loan volume outstanding during 2020.

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2021	2020	2019	Percentage Increase/(Decrease) 2021/2020	2020/2019
	(dollars in thousands)				
Loan fees	$ 1,395	$ 1,369	$ 1,155	1.90 %	18.53 %
Fees for financially related services	4,578	1,814	1,245	152.37	45.70
Lease income	47	46	65	2.17	(29.23)
Patronage refunds from other Farm Credit institutions	23,589	20,953	13,586	12.58	54.22
Gains (losses) on sales of rural home loans, net	818	471	485	73.67	(2.89)
Gains (losses) on sales of premises and equipment, net	94	58	4	62.07	1,350.00
Gains (losses) on other transactions	99	(39)	65	(353.85)	(160.00)
Insurance Fund refunds	–	234	243	(100.00)	(3.70)
Other noninterest income	370	400	399	(7.50)	0.25
Total noninterest income	$ 30,990	$ 25,306	$ 17,247	22.46 %	46.73 %

The increase in noninterest income of $5,684 or 22.46 percent in 2021 compared to 2020 is primarily due to increases in fees for financially related services and patronage refunds from other Farm Credit institutions.

Fees for financially related services increased $2,764 or 152.37 percent primarily due to increased crop insurance income from purchases of new hurricane insurance policies by members and an increase in insurance agency profit share income.

Patronage refunds from other Farm Credit Institutions increased $2,636 or 12.58 percent largely due to an increase in the special patronage dividend from the Bank of $2,455 along with an increase in the Association borrowing more from the Bank during 2021. The special patronage dividend from the Bank was $14,428 in 2021 compared to $11,973 in 2020 and $5,483 in 2019.

In 2020 and 2019, the Association recorded $234 and $243, respectively of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

Noninterest expense 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 Expense	**2021**	**2020**	**2019**	**2021/ 2020**	**2020/ 2019**
	(dollars in thousands)				
Salaries and employee benefits	$ 20,819	$ 19,412	$ 18,409	7.25 %	5.45 %
Occupancy and equipment	1,282	1,230	1,332	4.23	(7.66)
Insurance Fund premiums	1,640	952	825	72.27	15.39
(Gains) losses on other property owned, net	(27)	(59)	43	(54.24)	(237.21)
Other operating expenses	4,158	4,139	4,586	0.46	(9.75)
Total noninterest expense	$ 27,872	$ 25,674	$ 25,195	8.56 %	1.90 %

Non-interest expense increased $2,198 or 8.56 percent for the year ended December 31, 2021, as compared to the same period in 2020, and increased $479 or 1.90 percent in 2020 compared to 2019.

Salaries and employee benefits increased $1,407 or 7.25 percent in 2021 as compared to 2020. This increase is primarily attributable to an increase in the number of employees and increases in employee retirement expenses in 2021.

The $52 or 4.23 percent increase in occupancy and equipment expense in 2021 compared to 2020 is due to an increase in furniture and equipment costs and facilities maintenance expenses.

Insurance Fund premiums increased $688 or 72.27 percent for the twelve months ended December 31, 2021, compared to the same period of 2020. This increase is primarily attributed to an increase in the insurance premium charged by the Farm Credit System Insurance Corporation in 2021 compared to 2020.

Gains on other property owned decreased $32 or 54.24 percent due to lower amount other property owned properties sold during 2021 compared to 2020.

Other operating expenses increased $19 or 0.46 percent in 2021 as compared to 2020 due to an increase in employee travel and event related expenses from the lifting of COVID-19 'stay-at-home' orders during 2021.

Income Taxes

The Association recorded no provision for income taxes during 2021, 2020 or 2019. Refer to Note 2, *Summary of Significant Accounting Policies, I. 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 12 Months Ended 12/31/21	12/31/20	12/31/19
Return on average assets	2.89%	2.43%	2.22%
Return on average members' equity	12.80%	11.05%	9.79%
Net interest income as a percentage of average earning assets	2.60%	2.62%	2.88%
Net (charge-offs) recoveries to average loans	0.045%	0.016%	(0.027)%

Return on average assets and return on average members' equity increased during 2021 compared to 2020 as a result of increased net income in 2021 compared to 2020. The net interest income as a percentage of average earning assets, or net interest margin, decreased 2 basis points in 2021 from 2020 and 26 basis points in 2020 from 2019 due to the increased cost of funding LIBOR variable rate loans during those years.

The Association recorded net recoveries of $615 in 2021 which is 0.045 percent of average loans compared to net recoveries of $208 or 0.016 percent of average loans in 2020. During 2021, the Association recorded recoveries of $644 which surpassed the amount of charge-offs of $29 during the year and along with lower specific reserves required on nonperforming loans resulted in the recording of a reversal of allowance for loan losses of $1,580 in 2021. The 2021 reversal of allowance for loan losses was a decrease in expense compared to 2020 when the provision for loan losses was $1,514 and a decrease in

expense compared to 2019 when the reversal of allowance for loan losses was $538. In 2021, the Association had lower reserves required due to lower specific reserves needed on nonperforming loans. In 2020, the Association required higher reserves due to estimated economic impacts of COVID-19.

The past years have been favorably impacted by a special patronage dividend from AgFirst Farm Credit Bank which totaled $14,428 in 2021, $11,973 in 2020 and $5,483 in 2019. The Association does not forecast continued receipt of these distributions.

A key factor in the growth of net income for future years will be continued increases in acceptable loan volume, improvement in net interest income, controlling loan losses, and effectively managing noninterest expense. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through 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 $1,094,413 as compared to $1,048,130 at December 31, 2020 and $1,005,717 at December 31, 2019. The 2021 increase of $46,283 or 4.42 percent compared to December 31, 2020 was a result of an increase in total asset growth offset by an increase in members’ equity attributable to net income. The average volume of outstanding notes payable to the Bank was $1,049,154 and $1,021,427 for the years ended December 31, 2021 and 2020, respectively. Refer to Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association’s notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association’s note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations.

The Association had no 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 driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate. Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

The Association’s statutory obligation to borrow only from the Bank and the Bank’s ability to access capital of the Association is discussed in Note 4, *Investments, Equity Investments in Other Farm Credit Institutions*, and Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements included in this Annual Report

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, *Debt, 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 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 7.60 percent to $319,807 from the December 31, 2020, total of $297,218. At December 31, 2020, total members' equity increased 6.40 percent from the December 31, 2019 total of $279,334. The increase during 2021 was primarily attributed to 2021 net income from operations of $39,904 less the $17,500 patronage distribution declared. Total capital stock and participation certificates were $3,413 on December 31, 2021, compared to $3,248 on December 31, 2020 and $3,078 on December 31, 2019. The 2021 and 2020 increase is attributed to the issuance of capital stock to new stockholders.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of 2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	19.45%	18.87%	19.21%
Tier 1 Capital	6.0%	2.5%	8.5%	19.45%	18.87%	19.21%
Total Capital	8.0%	2.5%	10.5%	20.06%	19.56%	19.81%
Permanent Capital	7.0%	0.0%	7.0%	19.56%	18.99%	19.32%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	22.13%	21.17%	21.32%
URE and UREE Leverage	1.5%	0.0%	1.5%	18.01%	16.94%	16.82%

** Includes fully phased-in capital conservation buffers which become 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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

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 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) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $17,500 in 2021, $14,500 in 2020, and $13,000 in 2019.

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

The Association's mission is to support rural communities and agriculture with reliable, consistent credit, which includes providing credit to Young*, Beginning** and Small*** farmers, ranchers, producers or harvesters of aquatic products (YBS Farmers and Ranchers). Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual lending goals to increase our market share of loans to YBS Farmers and Ranchers. Specific marketing plans are developed to target this segment, and resources are designated to help ensure YBS Farmers and Ranchers have access to a stable source of credit and financially related services. The Association exceeded its 2021 Goals for all YBS categories, except for "Number of New Loans – Young Farmers & Ranchers", where the Association fell 7 new loans or 6.36% below the 2021 Goal.

2021 YBS Goals and Results

	2021 Goal	2021 Actual	% of Goal
Young Farmers & Ranchers			
Number of New loans	110	103	93.64%
New Volume	$34,600	$35,112	101.48%
Beginning Farmers & Ranchers			
Number of New loans	240	300	125.00%
New Volume	$57,300	$100,590	175.55%
Small Farmers & Ranchers			
Number of New loans	350	403	115.14%
New Volume	$58,400	$72,067	123.40%

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

December 31, 2021 Total YBS Loan Data

Total Loans & Commitments	12/31/21	% of Total
Number of Loans	3,321	100.00%
Volume Outstanding	$1,734,925	100.00%
Young Farmers & Ranchers		
Number of Loans	419	12.62%
Volume Outstanding	$105,209	6.06%
Beginning Farmers & Ranchers		
Number of Loans	1,116	33.60%
Volume Outstanding	$258,864	14.92%
Small Farmers & Ranchers		
Number of Loans	1,634	49.20%
Volume Outstanding	$220,483	12.71%

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2017 USDA Ag census data is used as the benchmark to measure penetration of the Association's marketing efforts. The census data indicates that within the Association's chartered territory of thirty-six counties, there are 43,639 farmers of which, by definition, 3,215 or 7.8% are Young, 13,394 or 30.7% are Beginning, and 39,776 or 90.7% are Small. Related to the total number of borrowers in the Association, Young Farmers and Ranchers represent 322 or 13.1% of the total, Beginning Farmers and Ranchers represent 852 or 34.6% of the total and Small Farmers and Ranchers represent 1,302 or 52.8% of the total. Similarly, of the total number of Farmers and Ranchers reported as Young (322), Beginning (852) and Small (1,302) within the Association's territory, the Association has a segment penetration percent of 10.0%, 6.4% and 3.3% respectively.

The YBS Plan contains several components including staffing, identification, education, development, and direct financial support. Staffing and education represents the foundation of the program as the Association recognizes that to serve the community; its staff must understand the culture and needs of each group and to provide programs that not only assist this segment in getting into agriculture, but also assure this segment remains in agriculture. The Association has focused on diversity in its employment practices because we believe strongly that our staff should reflect the diversity of the community we serve. The Association has a staff member that provides educational opportunities and has trained all lending staff to serve the YBS Community. Specific quantitative and qualitative goals are annually established for the YBS Program to ensure our performance in reaching this segment of our market.

Identification and outreach are also critical components of the program. The Association constantly monitors public record databases, organizational membership rolls, etc. that are available and could assist in identification of potential YBS Farmers and Ranchers. In addition, staff is active in community, trade and cultural organizations believed to have membership that include potential YBS Farmers and Ranchers. The Association works with agricultural trade organizations and Federal, State and County Agricultural Agencies, to ensure these organizations and agencies understand our YBS programs and will refer YBS Farmers and Ranchers with credit or financially related service needs to the Association. The Association has also worked with these organizations and agencies in providing training and development opportunities for YBS Farmers and Ranchers. The Association aggressively attempts to collaborate with these organizations and agencies in joint programs. The Association is a "Preferred Lender" in the USDA Guaranteed Lending Program.

A final component of the program is in the area of youth development programs. The Association actively supports those organizations such as FFA, 4-H, and other youth based programs that are training and developing the farmers and ranchers of the future.

The Association is committed to the future success of Young, Beginning and Small farmers, ranchers, producers or harvesters of aquatic products.

* Young Farmers and Ranchers 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 and Ranchers 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 and Ranchers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Slight differences between the Census and our YBS information are as follows:

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

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 ended on 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.

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 and Systemwide Debt Securities issued by the Funding Corporation on the Bank's and Association's behalf. 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 variable-rate financial instruments tied to LIBOR at December 31, 2021:

(dollars in thousands)	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 30, 2023	Total
Loans	$ 17,589	$ 9,731	$ 294,551	$ 321,871
Total Assets	$ 17,589	$ 9,731	$ 294,551	$ 321,871
Note Payable to AgFirst Farm Credit Bank	13,486	7,460	225,836	246,782
Total Liabilities	$ 13,486	$ 7,460	$ 225,836	$ 246,782

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, approximately 95 percent of loans maturing after June 30, 2023 contain fallback language.

OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began providing certain standard and as-requested optional or negotiated services to Puerto Rico Farm Credit, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources, and loan on-boarding and servicing. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied. On March 1, 2022, the Association provided notice of non-renewal of the services agreement effective on the annual renewal date in September 2022.

After more than 47 years in the Farm Credit System, Robert W. Teston, President and Chief Executive Officer announced his intention to retire on March 31, 2022. After a nation-wide search, Marcus A. Boone, Chief Lending Officer, was selected as President and Chief Executive Officer effective January 1, 2022. Robert W. Teston has assumed the role of Chief Operating Officer until his retirement.

Francisco J. Pines was appointed as an Outside Director to the Board of Directors effective February 23, 2022. Mr. Pines is the founder and managing partner of Francisco J. Pines, PA, a law firm in Coral Gables, Florida.

Amanda E. Taylor was appointed as an Outside Director to the Board of Directors effective February 23, 2022. Ms. Taylor is a partner of Houston Taylor, PLLC, a law firm in St. Petersburg, Florida.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
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. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • Modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit quality. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure utilizing common guidance developed across the Farm Credit System. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 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, 2. An allowance will be established for estimated credit losses on any debt securities, 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. • The extent of allowance change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Unincorporated Business Entities

The Association holds an equity investment in certain Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC).

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 4.12% ownership in the limited partnership. Additional information may be found in Note 4, *Investments,* of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The following LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
A 1 Sequatchie Pointe, LLC	LLC	Manage Acquired Property
Pickens County Properties, LLC	LLC	Manage Acquired Property

Description of Property

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

Location	Description	Form of Ownership
11903 Southern Blvd. West Palm Beach	Administrative/ Branch	Owned
12300 NW US Hwy 441 Alachua	Branch	Owned
330 N. Brevard Avenue Arcadia	Branch	Owned
24700 SW 177th Avenue Homestead	Branch	Owned
870 W. Hickpochee Ave, Unit 800 LaBelle	Branch	Leased*
15 N. Oak Avenue Lake Placid	Branch	Leased**
1606 Canyon Avenue Live Oak	Branch	Owned
5075 NW Blitchton Road Ocala	Branch	Owned
403 NW 6th Street Okeechobee	Branch	Owned
309 North 2nd Street Palatka	Branch	Owned
721 South Main Street Trenton	Branch	Owned
7925 20th Street Vero Beach	Branch	Owned
1311 Highway 17 North Wauchula	Branch	Owned

** Lease term expires September 30, 2022*
*** Lease term expires October 31, 2022*

The owned offices at 11903 Southern Boulevard are Administrative offices located in Suites 106, 110, 114, 200, 208, 212, 214, and 216, and a Branch office located in Suite 200. Owned suite 102 is leased to a tenant.

The Association currently owns a lot adjacent to the Arcadia branch located at 314 N. Brevard Avenue, Arcadia, Florida.

The Branch located at 340 N. Brevard Avenue, Arcadia, Florida, is now vacant as branch staff have been relocated. The Board of Directors is currently considering the next use, if any, for this building.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Senior Officer	Position & Other Business Interests
Robert W. Teston	*President and Chief Executive Officer* since September 2019 and Chief Credit Officer since January 2013, previously employed as President of a commercial Real Estate firm since 2011, Interim CEO and COO for Legacy Ag Credit since 2009 and provided credit management consulting services to various Farm Credit Associations since 2008. Announced intention to retire effective March 31, 2022 and has assumed the role of *Chief Operating Officer* until retirement.
Marcus A. Boone	*Senior Vice President and Chief Lending Officer* since April 2013 previously employed as Vice President of the Association Direct Lending Unit at Farm Credit Bank of Texas since 2006. Was selected as *President and Chief Executive Officer* effective January 1, 2022.
Deborah Caldeira	*Senior Vice President and Chief Human Resources Officer* since March 2016 and Director of Human Resources since December 2012, previously employed as Vice President, Manager of Employment & Employee Relations at BankAtlantic since 2005.
Laura Craker	*Senior Vice President and Chief Financial Officer* since June 2012. Previously employed by community banks as a Chief Financial Officer and Director of Accounting since 2005.
April Dawn Goodspeed	*Senior Vice President and Chief Operations and IT Officer* since April 2017 and Director of Loan Operations and Information Technology since 2015, with Farm Credit since 1989.
Roland Kampf	*Senior Vice President and Chief Risk Officer* since February 2016 and Director of Risk Management since February 2013 and Risk Manager since April 2012, previously employed as Chief Risk Officer and Chief Credit Officer at AgCarolina Financial since 2000, with Farm Credit since 1991.
Ashley Layson	*Senior Vice President and Chief Marketing Officer* since April 2017 and Director of Marketing since September 2013, previously employed as Marketing & Public Relations Director at Alabama Ag Credit since 2008.
John Quinlan	*Senior Vice President and Senior Attorney* since November 2020. Previously employed as outside legal counsel for past 30 years for banks and other institutional lenders in Florida, including Farm Credit Associations. Serves on the Board of Trustees of Bishop Museum of Science and Nature. Promoted to *Chief Legal Officer* effective January 2022.
Jonathan Ray	*Senior Vice President and Chief Credit Officer* since September 2019, with Farm Credit since 2016, previously employed as Vice President, Credit Risk Manager at Regent Bank since 2010.

The total amount of compensation earned by the CEO and highest paid officers as a group during the years ended December 31, 2021, 2020 and 2019, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Change in Pension value**	Perq./ Other	Total
CEO: ***							
Robert W. Teston	2021	$ 400,011	$ 160,000	$ –	$ –	$ –	$ 560,011
Robert W. Teston	2020	$ 375,014	$ 131,350	$ –	$ –	$ 40,000	$ 546,364
Robert W. Teston	2019	$ 273,616	$ 95,766	$ –	$ –	$ –	$ 369,382
Past CEO:							
Gregory M. Cunningham	2019	$ 311,346	$ 900	$ –	$ 68,027	$ 124,523	$ 504,796
Senior Officers and Highly Compensated Employees:							
9	2021	$ 1,725,059	$ 414,135	$ –	$ 86,739	$ 99,018	$ 2,324,951
9	2020	$ 1,563,726	$ 402,766	$ –	$ 596,855	$ 52,719	$ 2,616,066
8	2019	$ 1,446,897	$ 367,665	$ –	$ 859,704	$ 48,672	$ 2,722,938

*** Change in the expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee.*

**** Robert W. Teston announced his intention to retire effective March 31, 2022 and Marcus A. Boone was selected as CEO effective January 1, 2022. Robert W. Teston has assumed the role of Chief Operating Officer until retirement.*

Pension Benefits Table
As of December 31, 2021

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits **	Payments During 2021
CEO:					
Robert W. Teston	2021	None		$ –	$ –
Senior Officers and Highly Compensated Employees:					
3 Officers, excluding the CEO	2021	AgFirst Farm Credit Retirement Plan	31.4*	$ 5,120,046	$ –
				$ 5,120,046	$ –

** Represents the average years of credited service for the group*
*** The value of expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.*

Disclosure of information on total compensation paid during 2021 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Amounts in the table classified as Perquisites/Other are comprised primarily of automobile allowance, group life insurance, spousal travel, paid accumulated annual leave, relocation, and severance upon retirement or separation. It also includes amounts contributed by the Association on behalf of the employee to a defined contribution plan unless the plan is made available to all employees on the same basis.

In addition to a base salary, all employees earn additional compensation under an incentive plan. The Association incentive plan is designed to focus employees on the factors that produce success for the Association and its shareholders, and to reward employees for contributing to the Association exceeding its goals. The factors incorporated in the 2021 plan include return on assets, credit quality, credit administration, accrual loan volume growth, efficiency ratio, and net income.

All Association employees, with the exception of the Chief Executive Officer are eligible for incentives under the plan. Participation is not allowed for employees terminating employment prior to the payment of the incentive except for retirement, disability or death which may be paid at the discretion of the CEO or persons having unsatisfactory performance evaluations. New employees receive a pro rata share and must be employed for a minimum of three months to participate in the current year's plan. The incentive earned is based on percentage of salary paid during the year and is calculated based on a matrix of four performance factors and four performance tiers up to a maximum percentage cap. Allowable incentives ranged up to 25 percent of salary paid for senior managers and up to 15 percent of salary paid for other employees depending upon their position.

For loan officers, an additional incentive award opportunity is available to those who perform in excess of a minimum % of their goal as defined by their position. The pool for Loan Officers is funded if the performance objectives of the plan are achieved. However, individual awards ranging up to 20 percent of salary paid will be determined by loan production and fee income goals achieved by that loan officer.

The incentive plan also includes referral awards to employees for qualified referrals to other lines of business. The plan allows for Board approval of adjustments to the plan payouts for extraordinary events. During 2021, while the loan volume growth performance factor achieved the third performance tier, the Board approved payout at the highest tier for this factor due to strong loan originations despite sizeable liquidations.

All Association employees, except for the CEO who administers the awards, are eligible to receive discretionary awards based on special or exemplary performance as recommended by another employee, the employee's supervisor or directly by the CEO. The discretionary award pools are approved by the Board annually.

The Chief Executive Officer's bonus is at the discretion of the Board of Directors. Bonuses are shown in the year earned, which may be different than the year of payment.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

All employees are eligible to receive awards based on (a) years of service on five year, or multiple of five year anniversaries and (b) new hire referrals.

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

The Association sponsors a non-qualified supplemental deferred compensation plan for eligible employees. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

Chief Executive Officer

Mr. Teston does not participate in the AgFirst Farm Credit Retirement Plan nor the Farm Credit Benefits Alliance 401 (k)

Plan. Mr. Teston participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401 (k) Plan. Mr. Cunningham participated in the AgFirst Farm Credit Retirement Plan, the Farm Credit Benefits Alliance 401 (k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401 (k) Plan. Mr. Cunningham's participation in the AgFirst Farm Credit Retirement Plan is attributed to his service with another Farm Credit Association. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans,* of the Notes to the Consolidated Financial Statements.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2021
W. Eric Hopkins, *Chairman, Appointed Stockholder Director*	2014	2023	$ 36,498
Bobby G. Lines, *Vice Chairman*	2015	2024	32,840
John L. Alger	2007	2024	27,346
Tobin J. Basore	2014	2023	28,590
Howard P. Bateman	2004	2022	34,136
Roger W. Davis	1998	2022	26,008
Joseph C. Joyce, *Outside Director*	2008	2022	30,145
Martin J. McKenna	2009	2024	24,134
Douglas I. Moore	2015	2021	11,700
John R. Newbold, III	2014	2023	25,965
Harrell H. Phillips, Jr.	2015	2023	31,104
Robert G. Sexton	1995	2022	29,203
Lisa Sherman, *Appointed Stockholder Director*	2014	2023	33,333
Wayne H. Simmons	2014	2023	32,815
Donald G. Tanner, Jr.	2021	2024	14,281
E. E. Waldron, *Outside Director*	2001	2022	16,500
			$ 434,598

Subject to approval by the board, the Association may allow directors honoraria of $600 per day for attendance at regular board meetings and board committee meetings. If a committee meeting is held on a day other than the board meeting date, the Association may allow directors honoraria of $600 for attendance. If a committee meeting is held via conference call, the Association may allow directors honoraria of $300 for attendance. If a director is requested by the board to attend a special meeting, other than a regular board or committee meeting, the Association may allow directors honoraria of $600 per day. Directors are paid a monthly retainer fee of $1,200, except for the chairman and vice chairman of the board who receive $2,000 and $1,450, respectively. Committee chairs are paid an additional monthly retainer of $250 for Audit and $150 for Credit and Lending, Governance, and Compensation. Directors are paid for their travel time to regular board or committee meetings calculated based on 50 cents per mile for number of miles traveled. Non-cash compensation for the year was less than $5,000.

The following chart details the number of meetings, other activities, current committee assignments, and additional compensation paid for other activities (if applicable) for each director:

	Days Served			
Name of Director	Regular Board Meetings	Other Official Activities*	Committee Assignments	Comp. Paid for other Activities*
W. Eric Hopkins, *Chairman*	11	21	CEO Selection, Executive	$ 8,284
Bobby G. Lines, *Vice Chairman*	11	27	CEO Selection, Compensation, Credit/Lending, Executive	10,028
John L. Alger	11	14	Audit, Credit/Lending	6,600
Tobin J. Basore	11	19	Credit/Lending, Governance	8,115
Howard P. Bateman	11	20	Audit, CEO Selection, Executive, Governance	7,614
Roger W. Davis	10	16	Compensation, Credit/Lending	5,400
Joseph C. Joyce	11	25	Audit, CEO Selection, Compensation	9,095
Martin J. McKenna	11	12	Credit/Lending, Governance	3,900
Douglas I. Moore	5	6	Credit/Lending, Governance	1,500
John R. Newbold, III	10	16	Audit, Compensation	5,700
Harrell H. Phillips, Jr.	11	24	CEO Selection, Compensation Executive, Governance	8,210
Robert G. Sexton	11	23	Audit, CEO Selection, Governance	8,503
Lisa Sherman	10	29	Audit, CEO Selection, Compensation, Executive	10,041
Wayne H. Simmons	11	29	CEO Selection, Credit/Lending, Executive,	10,075
Donald G. Tanner, Jr.	6	7	Audit, Credit/Lending	3,300
E. E. Waldron	5	2	Compensation, Governance	600
				$ 106,965

* *Includes board committee meetings and other board activities other than regular board meetings*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the 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 $83,677 for 2021, $109,029 for 2020 and $190,308 for 2019.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

W. Eric Hopkins, Chairman, is a sugarcane and vegetable grower in Western Palm Beach County, employed by, and part owner of, Hundley Farms, Inc. He is the Board Chairman of Pioneer Growers Cooperative and serves as Director on the Boards of Hundley Farms, Inc., Frontier Produce, Inc., Double H Farms, Inc., Florida Fruit and Vegetable Association, and Law Enforcement Assistance Foundation, a fund raising organization. He is President of Sunshine Sweet Corn Farmers of Florida. He serves as a Director of Elberta Logistics International, LLC, an agricultural transport business, is an owner and managing member of Many H's, LLC, an agricultural transport business, and is an owner and managing member of American Berry Company, LLC, a blueberry growing business. Mr. Hopkins had previously held elected director positions on the Boards of Farm Credit of South Florida and Farm Credit of Florida from 2009 until 2013. During this time, he was a member of the Audit Committee. On January 30, 2014, the Board appointed Mr. Hopkins as an

appointed stockholder director, a position established under the Bylaws and his current term of office is 2020 - 2023. Mr. Hopkins serves as chair of the Executive Committee, and he served on the CEO Selection Committee. He also serves on the AgFirst Nominating Committee.

Bobby G. "Bob" Lines, Vice Chairman, is a cattle rancher, as well as a Bahia sod and seed producer in Palm Beach, Martin, and Okeechobee Counties. Mr. Lines owns and operates Agricultural Land Services, Inc., and Lines Ag Properties, LLC. He is a grassing contractor that provides sodding and seeding services to various government projects. Additionally, he supervises 4L Land & Cattle, LLC which is a beef cattle cow calf operation. He serves as a Director and is past President of the Florida Quarter Horse Association and as National Director of the American Quarter Horse Association. Mr. Lines was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve and his current term of office is 2021 - 2024. Mr. Lines serves as chair of the Compensation Committee and is a current member of the Credit/Lending and Executive Committees, and he served on the CEO Selection Committee.

John L. Alger is a vegetable grower and nurseryman in Miami-Dade County and is President of Alger Farms, Inc. He is an owner, officer and Director of S. M. Jones and Company, Inc., a produce sales company in Belle Glade, and HAB Packing, LLC, a vegetable packing company in Brinson, Georgia. Mr. Alger is also on the board of Florida Fruit and Vegetable Association, and a member of the Baptist Health South Florida Founders Society, the University of Miami UHealth Champions, and the Biscayne Bay Watershed Management Advisory Board. Mr. Alger was elected to the Farm Credit of South Florida board in 2007 and his current term of office is 2021 - 2024. He is a current member of the Audit and Credit/Lending Committees.

Tobin J. "Toby" Basore is a vegetable grower in Western Palm Beach County. He is an owner and manager of TKM Bengard Farms, LLC, a vegetable grower and packing company, and Cypress Cooling, LLC, a vegetable cooling and shipping company. He is an owner and President of TKM Farms, Inc., a vegetable grower and packing company and an owner and senior officer of TKM Management, Inc. He is a Director of the Florida Fruit and Vegetable Association (and serves as Chairman of the Florida Vegetable Exchange), and a Director of the Wedgworth Leadership Institute Alumni Association, a graduate of the Wedgworth Leadership Institute and a member and past Director of the Leadership Palm Beach County organization. Mr. Basore was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2020 - 2023. He is a current member of the Credit/Lending and Governance Committees. He also serves on the AgFirst Legislative Advisory Committee.

Howard P. "Rowdy" Bateman has interests in a family cattle operation, as well as his own cattle operation and is President of Bateman Family Partnership, Inc. and is Managing Member of I S Ranch, LLC. He was elected to the Farm Credit of Southwest Florida board in 2004 and his current term of office is 2019 - 2022. Mr. Bateman is a current member of the Audit, Governance and Executive Committees, and he served on the CEO Selection Committee.

Roger W. Davis is a tobacco, corn, timber farmer, and cattle rancher based in Alachua County. He is owner, President and Director of R & H Farms, Inc. He owns CWH Land, LLC and RFD Land, LLC, and is an owner and Managing Partner of 848 Land, LLC. Mr. Davis was elected to the Farm Credit of North Florida board in 1998 and his current term of office is 2019 - 2022. He is a current member of the Compensation and Credit/Lending Committees.

Joseph C. Joyce serves as an Outside Director of the Association. He is the Executive Director of the University of Florida Leadership and Education Foundation, Inc. He retired from the University of Florida in 2015 as a Professor Emeritus after serving 20 years as Senior Associate Vice President for IFAS. He is a 2016 inductee to the Florida Agricultural Hall of Fame. He was appointed by the Governor to the Florida Environmental Regulation commission in 2008, 2012, and 2015. He is a past Director of the Citrus Research and Development Foundation, and retired as a Brigadier General, US Army Reserves after a 28 year career. Dr. Joyce was appointed to the Farm Credit of North Florida board in 2008 and his current term of office is 2019 - 2022**.** He is a current member of the Audit and Compensation Committees, and he served on the CEO Selection Committee. He also serves on the AgFirst Plan Sponsor and the AgFirst / FCBT Plan Sponsor Committees.

Martin J. "Marty" McKenna is a citrus grower and operates McKenna Brothers, Inc., a privately owned citrus and harvesting operation. He has ownership in Dixie Belle Grove Partnership, Tombstone Grove Partnership, JMCK Enterprises, LLC, New Port Groves Partnership, EdMac Partnership, and McKenna Family Enterprises, LLC. Mr. McKenna is a Director, Officer, and has ownership interest in McKenna & Associates Citrus, Inc., M & M Groves, Inc., McKenna Harvesting, Inc., and Poachers Hammock Grove, Inc. He manages Firetower Grove Partnership. Mr. McKenna serves on the Board of Florida's Natural Growers. He is a Director and Officer of Orange Growers Marketing Association, Inc. He is a former Chairman and currently serves on the Florida Citrus Commission. Mr. McKenna was elected to the Farm Credit of Southwest Florida board in 2009. His current term of office is 2021 - 2024. He is a current member of the Credit/Lending and Governance Committees.

Douglas I. "Doug" Moore is a beef cattle farmer in Duval County and timber farmer in Baker County. Mr. Moore spent over 30 years in the dairy business. Mr. Moore is a Director, Officer, and has ownership interests in M & M Dairy, Inc., a timber farm, Southeastern Stainless Fabricators, Inc., a metal fabrication business, TM Livestock, Inc., a land development business, and Flatwoods Management, LLC, an agricultural consulting business. Mr. Moore serves as Vice President of Baker County Farm Bureau and is on the Farm Bureau Forestry Advisory Committee. He serves on the Advisory Committee of the Florida Wildlife Commission and the Florida Forest Service. Mr. Moore served as past Director and President of Sunshine State Milk Producers, Inc., as past Director and Secretary of Southeast Milk, Inc., as past Director of the North Florida Prescribed Burn Association, and as past Chairman of the Duval County Soil and Water Board. Mr. Moore previously served as Director for 17 years on the North Florida Farm Credit and Farm Credit of Florida Boards. Then Mr. Moore was elected to the Farm Credit of Florida board in 2015 and his term ended in 2021.

John R. Newbold, III owns, operates and is President of Forest Groves, Inc., a cut-foliage farm and vineyard. He is an owner and manager of Newbold Farms, LLC. He is Chairman of the Putnam County Fair Authority. He serves as Director and President of the Florida Wine and Grape Growers Association, and is a Director of the Viticulture Advisory Council, the Crescent City Cemetery Association, and the Florida Wildflower Cooperative. He serves on the Board of Supervisors on the Putnam County Soil & Water Conservation District, and on the Board of Trustees of the Putnam First Cancer Fund. Mr. Newbold was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2020 - 2023. He is a current member of the Audit and Compensation Committees.

Harrell H. "Hal" Phillips, Jr. is a cattleman and veterinarian in Levy and Marion Counties. Dr. Phillips owns and operates Phillips Ranch, a ranching and background / stocker operation, with almost 1,200 breeding age beef cattle and background approximately 1,000 calves annually. The ranch also produces hay, sod, grass seed, small grains, and timber. Dr. Phillips has 34 years of experience as a veterinarian. He serves as Director, and is past President, of both the Florida Cattlemen's Association and the Marion County Cattlemen's Association. Dr. Phillips is a past Director of the National Cattlemen's Beef Association. He has ownership in The Creek at Wekiva, LLC, a recreation and conservation property. He serves as Director on the Southeastern Youth Fair Board. He was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve a term of office from 2016 – 2017. His current term of office is 2020 - 2023. Dr. Phillips serves as chair of the Governance Committee, and is a current member of the Compensation and Executive Committees, and he served on the CEO Selection Committee.

Francisco J. Pines serves as an Outside Director of the Association. He is the founder and managing partner of Francisco J. Pines, PA, a law firm in Coral Gables, Florida. He was appointed to the Board on February 23, 2022.

Robert G. "Bobby" Sexton is a citrus grower and juice processor from Vero Beach, Florida. He is the owner, a Director and President of Oslo Citrus Growers Association, Inc., and co-owner of Orchid Island Juice Company. He is co-owner and serves as Chairman of Oslo Packing Company and Sexton Inc., family real estate companies. He is co-owner and serves as a Director on the Boards of Lost Legend, LLC, Sexton Grove Holdings, an agricultural company, and Sexton Citrus, LLC. He is a shareholder and also serves as a Director on the Board of the Federal Agricultural Mortgage Corporation (Farmer Mac). He serves on the Board of the Scholarship Foundation of Indian River County and the Indian River Citrus League. Mr. Sexton was elected to the Farm Credit of South Florida board in 1995 and his current term of office is 2019 - 2022. He is a current member of the Audit and Governance Committees, and he served on the CEO Selection Committee.

Lisa Sherman is a citrus grower in Highlands County and has ownership interest in Black Bear Citrus, LLC and Lake Childs Citrus, Inc. She is a Certified Public Accountant in Lake Placid. Ms. Sherman is an officer and serves on the board of Black Bear Citrus, LLC, Lake Childs Citrus, Inc., The Great Fruit Company, Inc., Highlands County 4H Club Foundation, Embassy Ministries, Inc., Good Care Home, Inc., and Lisa Sherman, CPA, P.A. Mrs. Sherman had previously held an Outside Director position on the boards of Farm Credit of Southwest Florida and Farm Credit of Florida from 2008 until May 2014. On May 29, 2014, the board appointed Mrs. Sherman as an appointed stockholder director, a position established under the Bylaws and her current term of office is 2020 - 2023. Ms. Sherman serves as chair of the Audit Committee, and is a current member of the Compensation and Executive Committees, and she served on the CEO Selection Committee.

Wayne H. Simmons is a citrus grower, certified crop advisor, timber farmer, realtor, and rental property owner from LaBelle, Florida. He is an owner and President of Simmons Family Grove, Inc. He is an owner and manager of LaBelle Fruit Company, LLC, LaBelle Housing Company, LLC and LaBelle Timber Company, LLC. Mr. Simmons is a Broker Associate of Southern Heritage Real Estate and Investments. He is also licensed in Georgia as an associate with Greene Forest & Farm Realty, LLC. He is a Director and Past President of the Gulf Citrus Growers Association. Mr. Simmons is a past Director of the Citrus Research and Development Foundation. He is also a member of the Hendry County Farm Bureau and the Realtors Land Institute. Mr. Simmons serves on the Board of the National Agricultural Research, Extension, Education and Economics Advisory Board – Citrus Disease Subcommittee. Mr. Simmons was elected to the Farm Credit of Florida board in 2014 and his term of office is 2020 - 2023. He also serves on the AgFirst District Advisory Committee. Mr. Simmons serves as chair of the Credit/Lending Committee, and is a current member of the Governance and Executive Committees, and he served on the CEO Selection Committee.

Donald G. "Don" Tanner Jr. operates Oak Hill Farms Cattle Company, which is a cow/calf and stocker operation in Callahan, FL. He has a three generation relationship with Farm Credit. His family (grandparents and parents) produced hay and cattle and were contract poultry growers for what became Tyson Foods, Inc. in Jacksonville, where he worked in management for the company itself in live production, plant operations, and ultimately Controller of the Jacksonville Complex. He is a controller at reforestation contractor Mizell Development, Inc., and President of Oak Hill Farms Cattle Company. He currently serves as a Director of Farmers Federal Credit Union where he was past chair of the Supervisory Committee. He is a Director of Nassau County Farm Bureau and current member of the Florida Farm Bureau Beef Advisory Committee. He is a past Officer/Director and current member of the Nassau County Cattlemen's Association and past Director/Trustee and current member of the Northeast Florida Fair Association. Mr. Tanner is also a Public Arbitrator with the Financial Industry Regulatory Authority (FINRA). He was elected to the Farm Credit of Florida Board in 2021, and his current term of office is 2021-2024. Mr. Tanner is a member of the Audit and Credit/Lending Committees.

Amanda E. Taylor serves as an Outside Director of the Association. She is a partner of Houston Taylor, PLLC, a law firm in St. Petersburg, Florida. She was appointed to the Board on February 23, 2022.

E.E. "Bucky" Waldron served as an Outside Director for the Association. He was an attorney with a private civil practice in Arcadia and Lake Suzy. Mr. Waldron was a board member of Kingsway Country Club, Inc., a private non-profit corporation. He was appointed to the Farm Credit of Southwest Florida board in 2001 and his term of office was 2019 – 2022.

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 Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations. In the opinion of management, none of the loans outstanding at December 31, 2021 to senior officers or directors as defined in FCA regulations involved more than the normal risk of collectability.

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.

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

	2021
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 82
Total	$ 82

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

Consolidated Financial Statements

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

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-800-432-4156 or writing Laura Craker, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421 or accessing the web site, ***www.farmcreditfl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports 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 Association's web site, within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Report of the Audit Committee

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

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

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 No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Farm Credit of Florida, ACA. 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:

Lisa Sherman
Chairman of the Audit Committee

Members of Audit Committee

John L. Alger
Howard P. Bateman
Joseph C. Joyce
John R. Newbold, III
Robert G. Sexton
Donald G. Tanner, Jr.

March 10, 2022

Report of Independent Auditors

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

Opinion

We have audited the accompanying consolidated financial statements of Farm Credit of Florida, 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)	December 31, 2021	2020	2019
Assets			
Cash	**$ 16**	$ 14	$ 561
Investments in debt securities:			
Held to maturity (fair value of $2,769, $3,180, and $4,252, respectively)	**2,286**	2,589	3,760
Loans	**1,401,695**	1,331,550	1,270,427
Allowance for loan losses	**(9,078)**	(10,043)	(8,321)
Net loans	**1,392,617**	1,321,507	1,262,106
Loans held for sale	**893**	219	108
Accrued interest receivable	**6,146**	5,910	6,671
Equity investments in other Farm Credit institutions	**13,775**	14,991	15,119
Premises and equipment, net	**8,226**	8,524	8,397
Other property owned	**—**	—	31
Accounts receivable	**23,727**	20,995	14,026
Other assets	**915**	746	1,015
Total assets	**$ 1,448,601**	$ 1,375,495	$ 1,311,794
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,094,413**	$ 1,048,130	$ 1,005,717
Accrued interest payable	**2,064**	2,057	2,685
Patronage refunds payable	**17,809**	14,816	13,278
Accounts payable	**4,752**	3,372	1,876
Advanced conditional payments	**2,837**	2,792	1,635
Other liabilities	**6,919**	7,110	7,269
Total liabilities	**1,128,794**	1,078,277	1,032,460
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**445**	445	445
Capital stock and participation certificates	**2,968**	2,803	2,633
Additional paid-in-capital	**7,873**	7,873	7,873
Retained earnings			
Allocated	**135,975**	127,974	121,989
Unallocated	**172,785**	158,384	146,634
Accumulated other comprehensive income (loss)	**(239)**	(261)	(240)
Total members' equity	**319,807**	297,218	279,334
Total liabilities and members' equity	**$ 1,448,601**	$ 1,375,495	$ 1,311,794

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	**$ 59,514**	$ 60,849	$ 66,254
Investments	**111**	126	220
Total interest income	**59,625**	60,975	66,474
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**24,419**	26,856	31,911
Net interest income	**35,206**	34,119	34,563
Provision for (reversal of allowance for) loan losses	**(1,580)**	1,514	(538)
Net interest income after provision for (reversal of allowance for) loan losses	**36,786**	32,605	35,101
Noninterest Income			
Loan fees	**1,395**	1,369	1,155
Fees for financially related services	**4,578**	1,814	1,245
Lease income	**47**	46	65
Patronage refunds from other Farm Credit institutions	**23,589**	20,953	13,586
Gains (losses) on sales of rural home loans, net	**818**	471	485
Gains (losses) on sales of premises and equipment, net	**94**	58	4
Gains (losses) on other transactions	**99**	(39)	65
Insurance Fund refunds	**—**	234	243
Other noninterest income	**370**	400	399
Total noninterest income	**30,990**	25,306	17,247
Noninterest Expense			
Salaries and employee benefits	**20,819**	19,412	18,409
Occupancy and equipment	**1,282**	1,230	1,332
Insurance Fund premiums	**1,640**	952	825
(Gains) losses on other property owned, net	**(27)**	(59)	43
Other operating expenses	**4,158**	4,139	4,586
Total noninterest expense	**27,872**	25,674	25,195
Net income	**$ 39,904**	$ 32,237	$ 27,153
Other comprehensive income net of tax			
Employee benefit plans adjustments	**22**	(21)	(45)
Comprehensive income	**$ 39,926**	$ 32,216	$ 27,108

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	$ 445	$ 2,543	$ 7,873	$ 118,040	$ 136,432	$ (195)	$ 265,138
Comprehensive income					27,153	(45)	27,108
Capital stock/participation certificates issued/(retired), net		90					90
Patronage distribution							
Cash					(13,000)		(13,000)
Nonqualified retained earnings				3,782	(3,782)		—
Patronage distribution adjustment				167	(169)		(2)
Balance at December 31, 2019	$ 445	$ 2,633	$ 7,873	$ 121,989	$ 146,634	$ (240)	$ 279,334
Comprehensive income					32,237	(21)	32,216
Capital stock/participation certificates issued/(retired), net		170					170
Patronage distribution							
Cash					(14,500)		(14,500)
Nonqualified retained earnings				4,956	(4,956)		—
Patronage distribution adjustment				1,029	(1,031)		(2)
Balance at December 31, 2020	$ 445	$ 2,803	$ 7,873	$ 127,974	$ 158,384	$ (261)	$ 297,218
Comprehensive income					**39,904**	**22**	**39,926**
Capital stock/participation certificates issued/(retired), net		**165**					**165**
Patronage distribution							
Cash					**(17,500)**		**(17,500)**
Nonqualified retained earnings				**6,792**	**(6,792)**		**—**
Patronage distribution adjustment				**1,209**	**(1,211)**		**(2)**
Balance at December 31, 2021	**$ 445**	**$ 2,968**	**$ 7,873**	**$ 135,975**	**$ 172,785**	**$ (239)**	**$ 319,807**

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	**$ 39,904**	$ 32,237	$ 27,153
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**680**	662	672
Amortization (accretion) of net deferred loan costs (fees)	**(844)**	(665)	(530)
Premium amortization (discount accretion) on investments in debt securities	**15**	16	20
Amortization (accretion) of yield mark resulting from merger	**(495)**	(698)	(1,043)
Provision for (reversal of allowance for) loan losses	**(1,580)**	1,514	(538)
(Gains) losses on other property owned	**(29)**	(44)	8
(Gains) losses on sales of premises and equipment, net	**(94)**	(58)	(4)
(Gains) losses on sales of rural home loans, net	**(818)**	(471)	(485)
(Gains) losses on other transactions	**(99)**	39	(65)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(39,145)**	(39,383)	(30,664)
Proceeds from sales of loans held for sale, net	**39,289**	39,743	31,301
(Increase) decrease in accrued interest receivable	**(236)**	761	(249)
(Increase) decrease in accounts receivable	**(2,732)**	(6,969)	1,380
(Increase) decrease in other assets	**(169)**	269	(153)
Increase (decrease) in accrued interest payable	**7**	(628)	119
Increase (decrease) in accounts payable	**1,380**	1,496	(702)
Increase (decrease) in other liabilities	**(70)**	(196)	1,760
Total adjustments	**(4,940)**	(4,612)	827
Net cash provided by (used in) operating activities	**34,964**	27,625	27,980
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**294**	1,162	451
Net (increase) decrease in loans	**(68,227)**	(59,598)	(105,881)
(Increase) decrease in equity investments in other Farm Credit institutions	**1,216**	128	(407)
Purchases of premises and equipment	**(404)**	(834)	(1,369)
Proceeds from sales of premises and equipment	**116**	103	—
Proceeds from sales of other property owned	**54**	64	584
Net cash provided by (used in) investing activities	**(66,951)**	(58,975)	(106,622)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**46,288**	42,440	90,739
Net increase (decrease) in advanced conditional payments	**45**	1,157	509
Capital stock and participation certificates issued/(retired), net	**165**	170	90
Patronage refunds and dividends paid	**(14,509)**	(12,964)	(12,466)
Net cash provided by (used in) financing activities	**31,989**	30,803	78,872
Net increase (decrease) in cash	**2**	(547)	230
Cash, beginning of period	**14**	561	331
Cash, end of period	**$ 16**	$ 14	$ 561
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 25**	$ 12	$ 552
Estimated cash dividends or patronage distributions declared or payable	**17,500**	14,500	13,000
Employee benefit plans adjustments (Note 9)	**(22)**	21	45
Supplemental information:			
Interest paid	**$ 24,417**	$ 27,511	$ 31,853

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Florida, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to qualified borrowers in the counties of Alachua, Baker, Bradford, Broward, Charlotte, Clay, Collier, Columbia, DeSoto, Dixie, Duval, Flagler, Gilchrist, Glades, Hamilton, Hardee, Hendry, Highlands, Indian River, Lafayette, Lee, Levy, Manatee, Marion, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Palm Beach, Putnam, St. Johns, St. Lucie, Sarasota, Suwannee and Union in the state of Florida.

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

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

   Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate 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 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 capital as previously reported.

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

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

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

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

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

When loans are in nonaccrual status, payments are applied against the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, 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.

The Association may acquire loans individually, in groups or portfolios. Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans is determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

Purchased Credit Impaired (PCI) Loans
For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. The purchaser then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

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. Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.

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.

Investments in Debt Securities

The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

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 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.

Impairment

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a *credit loss*). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Investment Income

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

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.

Additional information may be found in Note 9.

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.

Unfunded commitments, and other 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. **Acquisition Accounting:** Mergers are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangibles, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a "bargain purchase gain" is recognized. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. See Loans and Allowance for Loan Losses section above for accounting policy regarding loans acquired in a business combination.

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

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

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

Gains and Losses from Nonfinancial Assets
Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income or Noninterest Expense. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with

a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

O. **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.

P. **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	$ 812,859	$ 786,779	$ 737,276
Production and intermediate-term	240,827	230,625	233,972
Loans to cooperatives	35,781	35,984	26,406
Processing and marketing	153,768	132,886	129,685
Farm-related business	38,326	36,316	40,289
Communication	62,935	57,207	49,457
Power and water/waste disposal	22,916	20,262	26,335
Rural residential real estate	18,010	13,571	10,088
International	11,011	12,332	11,011
Other (including Mission Related)	5,262	5,588	5,908
Total loans	$ 1,401,695	$ 1,331,550	$ 1,270,427

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	$ 33,465	$ 90,370	$ 541	$ –	$ –	$ –	$ 34,006	$ 90,370
Production and intermediate-term	51,093	14,404	1,505	252	1,244	–	53,842	14,656
Loans to cooperatives	31,443	–	4,417	–	–	–	35,860	–
Processing and marketing	127,018	54,206	2,541	85,966	–	–	129,559	140,172
Farm-related business	–	21,560	2,259	628	951	–	3,210	22,188
Communication	62,994	–	–	–	–	–	62,994	–
Power and water/waste disposal	22,985	–	–	–	–	–	22,985	–
International	11,036	–	–	–	–	–	11,036	–
Other (including Mission Related)	–	–	–	–	3,043	–	3,043	–
Total	$ 340,034	$ 180,540	$ 11,263	$ 86,846	$ 5,238	$ –	$ 356,535	$ 267,386

	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	$ 32,953	$ 126,826	$ 671	$ –	$ –	$ –	$ 33,624	$ 126,826
Production and intermediate-term	51,753	6,120	6,413	–	2,118	–	60,284	6,120
Loans to cooperatives	32,186	–	3,834	–	–	–	36,020	–
Processing and marketing	114,467	47,582	4,542	86,612	–	–	119,009	134,194
Farm-related business	–	15,947	2,054	707	771	–	2,825	16,654
Communication	57,190	–	–	–	–	–	57,190	–
Power and water/waste disposal	20,347	–	–	–	–	–	20,347	–
International	12,350	–	–	–	–	–	12,350	–
Other (including Mission Related)	–	–	–	–	3,274	–	3,274	–
Total	$ 321,246	$ 196,475	$ 17,514	$ 87,319	$ 6,163	$ –	$ 344,923	$ 283,794

	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	$ 28,171	$ 137,206	$ –	$ 22,186	$ –	$ –	$ 28,171	$ 159,392
Production and intermediate-term	46,749	4,673	954	80	1,637	–	49,340	4,753
Loans to cooperatives	23,023	–	3,435	–	–	–	26,458	–
Processing and marketing	107,502	46,233	7,159	89,453	–	–	114,661	135,686
Farm-related business	–	22,057	3,497	1,259	588	–	4,085	23,316
Communication	49,462	–	–	–	–	–	49,462	–
Power and water/waste disposal	26,479	–	–	–	–	–	26,479	–
International	11,035	–	–	–	–	–	11,035	–
Other (including Mission Related)	–	–	–	–	3,498	–	3,498	–
Total	$ 292,421	$ 210,169	$ 15,045	$ 112,978	$ 5,723	$ –	$ 313,189	$ 323,147

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	95.84%	94.72%	94.86%
OAEM	2.37	2.63	4.00
Substandard/doubtful/loss	1.79	2.65	1.14
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	88.38%	94.35%	92.58%
OAEM	7.44	3.31	6.45
Substandard/doubtful/loss	4.18	2.34	0.97
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	97.11%	96.72%
OAEM	–	2.89	3.28
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	88.54%	84.08%	88.36%
OAEM	1.81	7.39	11.04
Substandard/doubtful/loss	9.65	8.53	0.60
	100.00%	100.00%	100.00%

	December 31,		
	2021	2020	2019
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	62.39%
OAEM	–	–	37.61
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.39%	99.12%	98.00%
OAEM	0.17	0.12	0.11
Substandard/doubtful/loss	0.44	0.76	1.89
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total loans:			
Acceptable	95.27%	95.17%	94.15%
OAEM	2.71	2.62	4.97
Substandard/doubtful/loss	2.02	2.21	0.88
	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	$ 3,127	$ 1,158	$ 4,285	$ 812,852	$ 817,137
Production and intermediate-term	48	34	82	241,654	241,736
Loans to cooperatives	–	–	–	35,803	35,803
Processing and marketing	–	–	–	154,375	154,375
Farm-related business	24	–	24	38,447	38,471
Communication	–	–	–	62,948	62,948
Power and water/waste disposal	–	–	–	22,926	22,926
Rural residential real estate	35	–	35	18,022	18,057
International	–	–	–	11,039	11,039
Other (including Mission Related)	–	–	–	5,330	5,330
Total	$ 3,234	$ 1,192	$ 4,426	$ 1,403,396	$ 1,407,822

	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	$ 3,892	$ 2,636	$ 6,528	$ 784,536	$ 791,064
Production and intermediate-term	830	1,855	2,685	228,750	231,435
Loans to cooperatives	–	–	–	36,030	36,030
Processing and marketing	–	–	–	133,395	133,395
Farm-related business	–	–	–	36,406	36,406
Communication	–	–	–	57,210	57,210
Power and water/waste disposal	–	–	–	20,273	20,273
Rural residential real estate	–	–	–	13,606	13,606
International	–	–	–	12,360	12,360
Other (including Mission Related)	–	–	–	5,660	5,660
Total	$ 4,722	$ 4,491	$ 9,213	$ 1,328,226	$ 1,337,439

	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	$ 4,141	$ 2,013	$ 6,154	$ 735,577	$ 741,731
Production and intermediate-term	493	2,302	2,795	232,322	235,117
Loans to cooperatives	–	–	–	26,432	26,432
Processing and marketing	–	–	–	130,309	130,309
Farm-related business	–	–	–	40,467	40,467
Communication	–	–	–	49,463	49,463
Power and water/waste disposal	–	–	–	26,388	26,388
Rural residential real estate	66	20	86	10,032	10,118
International	–	–	–	11,064	11,064
Other (including Mission Related)	–	–	–	5,978	5,978
Total	$ 4,700	$ 4,335	$ 9,035	$ 1,268,032	$ 1,277,067

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

	December 31,		
	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	$ 2,476	$ 5,288	$ 4,195
Production and intermediate-term	1,852	2,559	2,306
Farm-related business	242	242	243
Rural residential real estate	79	104	174
Total	$ 4,649	$ 8,193	$ 6,918
Accruing restructured loans:			
Real estate mortgage	$ 533	$ 808	$ 526
Production and intermediate-term	80	81	192
Total	$ 613	$ 889	$ 718
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 5,262	$ 9,082	$ 7,636
Other property owned	–	–	31
Total nonperforming assets	$ 5,262	$ 9,082	$ 7,667
Nonaccrual loans as a percentage of total loans	0.33%	0.62%	0.54%
Nonperforming assets as a percentage of total loans and other property owned	0.38%	0.68%	0.60%
Nonperforming assets as a percentage of capital	1.65%	3.06%	2.74%

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

	December 31, 2021	December 31, 2020	December 31, 2019
Impaired nonaccrual loans:			
Current as to principal and interest	$ 3,026	$ 3,201	$ 2,431
Past due	1,623	4,992	4,487
Total	$ 4,649	$ 8,193	$ 6,918
Impaired accrual loans:			
Restructured	$ 613	$ 889	$ 718
90 days or more past due	–	–	–
Total	$ 613	$ 889	$ 718
Total impaired loans	$ 5,262	$ 9,082	$ 7,636
Additional commitments to lend	$ 95	$ 95	$ 14

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	$ 1,116	$ 1,275	$ 92	$ 1,683	$ 367
Production and intermediate-term	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 1,116	$ 1,275	$ 92	$ 1,683	$ 367
With no related allowance for credit losses:					
Real estate mortgage	$ 1,893	$ 4,576	$ –	$ 2,854	$ 621
Production and intermediate-term	1,932	2,726	–	2,915	635
Farm-related business	242	252	–	365	79
Rural residential real estate	79	270	–	120	26
Total	$ 4,146	$ 7,824	$ –	$ 6,254	$ 1,361
Total impaired loans:					
Real estate mortgage	$ 3,009	$ 5,851	$ 92	$ 4,537	$ 988
Production and intermediate-term	1,932	2,726	–	2,915	635
Farm-related business	242	252	–	365	79
Rural residential real estate	79	270	–	120	26
Total	$ 5,262	$ 9,099	$ 92	$ 7,937	$ 1,728

	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	$ 2,060	$ 2,139	$ 538	$ 2,084	$ 228
Production and intermediate-term	1,708	4,433	471	1,728	189
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 3,768	$ 6,572	$ 1,009	$ 3,812	$ 417
With no related allowance for credit losses:					
Real estate mortgage	$ 4,036	$ 8,239	$ –	$ 4,084	$ 446
Production and intermediate-term	932	1,996	–	943	103
Farm-related business	242	267	–	245	27
Rural residential real estate	104	334	–	105	12
Total	$ 5,314	$ 10,836	$ –	$ 5,377	$ 588
Total impaired loans:					
Real estate mortgage	$ 6,096	$ 10,378	$ 538	$ 6,168	$ 674
Production and intermediate-term	2,640	6,429	471	2,671	292
Farm-related business	242	267	–	245	27
Rural residential real estate	104	334	–	105	12
Total	$ 9,082	$ 17,408	$ 1,009	$ 9,189	$ 1,005

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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	2,096	4,683	733	2,475	368
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 2,096	$ 4,683	$ 733	$ 2,475	$ 368
With no related allowance for credit losses:					
Real estate mortgage	$ 4,721	$ 9,528	$ –	$ 5,575	$ 829
Production and intermediate-term	402	1,515	–	475	71
Farm-related business	243	282	–	287	43
Rural residential real estate	174	403	–	206	30
Total	$ 5,540	$ 11,728	$ –	$ 6,543	$ 973
Total impaired loans:					
Real estate mortgage	$ 4,721	$ 9,528	$ –	$ 5,575	$ 829
Production and intermediate-term	2,498	6,198	733	2,950	439
Farm-related business	243	282	–	287	43
Rural residential real estate	174	403	–	206	30
Total	$ 7,636	$ 16,411	$ 733	$ 9,018	$ 1,341

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

	Real Estate Mortgage	Production and Intermediate -term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2020	$ 4,414	$ 3,682	$ 1,562	$ 155	$ 145	$ 74	$ 10	$ 1	$ 10,043
Charge-offs	(13)	(16)	–	–	–	–	–	–	(29)
Recoveries	446	197	–	–	–	1	–	–	644
Provision of loan losses	(1,681)	175	(21)	16	(67)	(1)	(1)	–	(1,580)
Balance at December 31, 2021	$ 3,166	$ 4,038	$ 1,541	$ 171	$ 78	$ 74	$ 9	$ 1	$ 9,078
Balance at December 31, 2019	$ 3,307	$ 3,223	$ 1,388	$ 140	$ 187	$ 67	$ 8	$ 1	$ 8,321
Charge-offs	–	(140)	–	–	–	–	–	–	(140)
Recoveries	253	78	12	–	–	5	–	–	348
Provision of loan losses	854	521	162	15	(42)	2	2	–	1,514
Balance at December 31, 2020	$ 4,414	$ 3,682	$ 1,562	$ 155	$ 145	$ 74	$ 10	$ 1	$ 10,043
Balance at December 31, 2018	$ 3,971	$ 4,080	$ 850	$ 155	$ 46	$ 77	$ 6	$ 1	$ 9,186
Charge-offs	–	(1,388)	–	–	–	(7)	–	–	(1,395)
Recoveries	450	583	28	–	–	7	–	–	1,068
Provision for loan losses	(1,114)	(52)	510	(15)	141	(10)	2	–	(538)
Balance at December 31, 2019	$ 3,307	$ 3,223	$ 1,388	$ 140	$ 187	$ 67	$ 8	$ 1	$ 8,321
Allowance on loans evaluated for impairment:									
Individually	$ 92	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 92
Collectively	3,074	4,038	1,541	171	78	74	9	1	8,986
PCI**	–	–	–	–	–	–	–	–	–
Balance at December 31, 2021	$ 3,166	$ 4,038	$ 1,541	$ 171	$ 78	$ 74	$ 9	$ 1	$ 9,078
Individually	$ 538	$ 471	$ –	$ –	$ –	$ –	$ –	$ –	$ 1,009
Collectively	3,876	3,211	1,562	155	145	74	10	1	9,034
PCI**	–	–	–	–	–	–	–	–	–
Balance at December 31, 2020	$ 4,414	$ 3,682	$ 1,562	$ 155	$ 145	$ 74	$ 10	$ 1	$ 10,043
Individually	$ –	$ 733	$ –	$ –	$ –	$ –	$ –	$ –	$ 733
Collectively	3,307	2,490	1,388	140	187	67	8	1	7,588
PCI**	–	–	–	–	–	–	–	–	–
Balance at December 31, 2019	$ 3,307	$ 3,223	$ 1,388	$ 140	$ 187	$ 67	$ 8	$ 1	$ 8,321
Recorded investment in loans evaluated for impairment:									
Individually	$ 2,784	$ 1,932	$ 242	$ –	$ –	$ 79	$ –	$ –	$ 5,037
Collectively	813,907	239,804	228,407	62,948	22,926	17,978	11,039	5,330	1,402,339
PCI**	446	–	–	–	–	–	–	–	446
Balance at December 31, 2021	$ 817,137	$ 241,736	$ 228,649	$ 62,948	$ 22,926	$ 18,057	$ 11,039	$ 5,330	$ 1,407,822
Individually	$ 5,848	$ 2,640	$ 242	$ –	$ –	$ 104	$ –	$ –	$ 8,834
Collectively	784,648	228,795	205,589	57,210	20,273	13,502	12,360	5,660	1,328,037
PCI**	568	–	–	–	–	–	–	–	568
Balance at December 31, 2020	$ 791,064	$ 231,435	$ 205,831	$ 57,210	$ 20,273	$ 13,606	$ 12,360	$ 5,660	$ 1,337,439
Individually	$ 4,370	$ 2,499	$ 243	$ –	$ –	$ 174	$ –	$ –	$ 7,286
Collectively	736,719	232,619	196,965	49,463	26,388	9,944	11,064	5,978	1,269,140
PCI**	642	(1)	–	–	–	–	–	–	641
Balance at December 31, 2019	$ 741,731	$ 235,117	$ 197,208	$ 49,463	$ 26,388	$ 10,118	$ 11,064	$ 5,978	$ 1,277,067

** Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.*
*** Purchased credit impaired (PCI) loans.*

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $27,718, $29,990, and $31,860 at December 31, 2021, 2020, and 2019, respectively. Fees paid for such guarantee commitments totaled less than $1 for each of the years presented. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following 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. The tables do not include purchased credit impaired loans. There were no new TDRs that occurred during the year ended December 31, 2021.

	Year Ended December 31, 2020				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 29	$ 2,691	$ –	$ 2,720	
Total	$ 29	$ 2,691	$ –	$ 2,720	
Post-modification:					
Real estate mortgage	$ 30	$ 2,691	$ –	$ 2,721	$ (65)
Total	$ 30	$ 2,691	$ –	$ 2,721	$ (65)

	Year Ended December 31, 2019				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 780	$ –	$ 780	
Production and intermediate-term	–	90	–	90	
Total	$ –	$ 870	$ –	$ 870	
Post-modification:					
Real estate mortgage	$ –	$ 787	$ –	$ 787	$ –
Production and intermediate-term	–	86	–	86	–
Total	$ –	$ 873	$ –	$ 873	$ –

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

The following table presents 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	$ –	$ 4,222	$ –
Total	$ –	$ 4,222	$ –

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

	Total TDRs December 31,			Nonaccrual TDRs December 31,		
	2021	2020	2019	2021	2020	2019
Real estate mortgage	$ 1,671	$ 3,975	$ 1,974	$ 1,138	$ 3,167	$ 1,448
Production and intermediate-term	982	84	184	902	3	(8)
Farm-related business	242	242	243	242	242	243
Rural residential real estate	1	1	–	1	1	–
Total loans	$ 2,896	$ 4,302	$ 2,401	$ 2,283	$ 3,413	$ 1,683
Additional commitments to lend	$ –	$ –	$ –			

Purchased Credit Impaired (PCI) Loans

The Association acquires loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at

acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

The carrying amounts of such loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	December 31, 2021
Real estate mortgage	$ 446
Total Loans	$ 446

There was no allowance for loan losses related to these loans at December 31, 2021, 2020 or 2019. During the years ended December 31, 2021, 2020, and 2019 provision for loan losses on these loans was an expense reversal of $80, an expense reversal of $63, and an expense reversal of $96, respectively. See above for a summary of changes in the total allowance for loan losses. There were no loans acquired during the years ended December 31, 2021, 2020 or 2019 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. These amounts are included in the carrying values, net of allowance, described above.

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments also consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment (MRI) program approved by the FCA. In its Conditions of Approval for the program, the FCA generally considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. Any other bonds purchased under the MRI program, approved on a case-by-case basis by FCA, may have different eligibility requirements. At December 31, 2021 the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,514	$ 503	$ –	$ 2,017	5.77%
ABSs	772	6	(26)	752	0.58
Total	$ 2,286	$ 509	$ (26)	$ 2,769	4.02%

	December 31, 2020				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,556	$ 624	$ –	$ 2,180	5.77%
ABSs	1,033	2	(35)	1,000	0.73
Total	$ 2,589	$ 626	$ (35)	$ 3,180	3.76%

	December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 2,423	$ 533	$ –	$ 2,956	6.24%
ABSs	1,337	1	(42)	1,296	2.32
Total	$ 3,760	$ 534	$ (42)	$ 4,252	4.85%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	December 31, 2021		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	158	149	(1.29)
After five years through ten years	177	169	0.12
After ten years	1,951	2,451	4.80
Total	$ 2,286	$ 2,769	4.02%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2021			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ –	$ –	$ 595	$ (26)

	December 31, 2020			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 19	$ –	$ 821	$ (35)

	December 31, 2019			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 21	$ –	$ 1,104	$ (42)

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment (OTTI) analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

A substantial portion of these investments was in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

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 $11,989 for 2021, $13,098 for 2020 and $13,204 for 2019. The Association owned 4.67 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 $1,786 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	$ 1,071	$ 1,071	$ 991
Buildings and improvements	10,296	10,238	10,173
Furniture and equipment	6,510	6,270	5,768
	17,877	17,579	16,932
Less: accumulated depreciation	9,651	9,055	8,535
Total	$ 8,226	$ 8,524	$ 8,397

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 rate on all interest-bearing notes payable was 2.30 percent and the weighted-average remaining maturity was 9.4 years at December 31, 2021. Variable rate and fixed rate notes payable represent approximately 14.42 percent and 85.58 percent, respectively, of total notes payable at December 31, 2021. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lessor of two percent of the loan amount or $1 thousand. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to 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%	19.45%	18.87%	19.21%
Tier 1 Capital	6.0%	2.5%	8.5%	19.45%	18.87%	19.21%
Total Capital	8.0%	2.5%	10.5%	20.06%	19.56%	19.81%
Permanent Capital	7.0%	0.0%	7.0%	19.56%	18.99%	19.32%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	22.13%	21.17%	21.32%
URE and UREE Leverage	1.5%	0.0%	1.5%	18.01%	16.94%	16.82%

* *Includes fully phased-in capital conservation buffers which became effective January 1, 2020.*
** *The Tier 1 Leverage Ratio must include a minimum of 1.50% of URE and URE Equivalents.*

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

D. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share, except for Class D Preferred Stock which, if issued, would have a par value of one cent ($0.01) per share.

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

Class	Protected	Shares Outstanding Number	Aggregate Par Value
A Common/Nonvoting	Yes	89,062	$ 445
C Common/Voting	No	507,750	2,539
C Participation Certificates/Nonvoting	No	85,949	429
Total Capital Stock and Participation Certificates		682,761	$ 3,413

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

Retained Earnings

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

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2021, allocated members' equity consisted of $56,830 of nonqualified allocated surplus and $79,145 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions

are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

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

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class D Preferred Stock or on all classes of stock and participation certificates.

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

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

Transfer

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

Impairment

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

a) ***First***, Assistance Preferred Stock issued and outstanding:
b) ***Second***, allocated surplus, in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;
c) ***Third***, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
d) ***Fourth***, Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and
e) ***Fifth***, Class D Preferred Stock issued and outstanding, if any.

Distribution on Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities, shall be distributed in the following order of priority:

a) ***First***, to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders,
b) ***Second***, to the holders of Class A Common Stock, Class B Common Stock, Class C 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;
c) ***Third***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
e) ***Fifth***, all unallocated surplus accrued or issued after April 22, 1995, shall be distributed to present and former Patrons from said date through the date of liquidation on a patronage basis to the extent practicable; and
f) ***Sixth***, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of Common Stock and Participation Certificates in proportion to the number of shares or units of such class of Common Stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made in proportion to the number of shares or units of such classes of stock or participation certificates held by such holders. All distributions to holders of allocated surplus shall be pro-rata by year of issuance.

E. **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	$ (261)	$ (240)	$ (195)
Other comprehensive income before reclassifications	8	(33)	(54)
Amounts reclassified from AOCI	14	12	9
Net current period OCI	22	(21)	(45)
Balance at end of period	$ (239)	$ (261)	$ (240)

	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	$ (14)	$ (12)	$ (9)	See Note 9.
Amounts reclassified	$ (14)	$ (12)	$ (9)	

(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 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
ABSs, such as those issued through the Small Business Administration, are classified Level 2.

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.

The fair value of investments in debt securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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	$ 652	$ 652	$ –	$ –	$ 652
Recurring Assets	$ 652	$ 652	$ –	$ –	$ 652
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,024	$ –	$ –	$ 1,024	$ 1,024
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 1,024	$ –	$ –	$ 1,024	$ 1,024
Other Financial Instruments					
Assets:					
Cash	$ 16	$ 16	$ –	$ –	$ 16
RABs	1,514	–	–	2,017	2,017
ABSs	772	–	752	–	752
Loans	1,392,486	–	–	1,391,736	1,391,736
Other Financial Assets	$ 1,394,788	$ 16	$ 752	$ 1,393,753	$ 1,394,521
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,094,413	$ –	$ –	$ 1,092,906	$ 1,092,906
Other Financial Liabilities	$ 1,094,413	$ –	$ –	$ 1,092,906	$ 1,092,906

	December 31, 2020				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 505	$ 505	$ –	$ –	$ 505
Recurring Assets	$ 505	$ 505	$ –	$ –	$ 505
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 2,759	$ –	$ –	$ 2,759	$ 2,759
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 2,759	$ –	$ –	$ 2,759	$ 2,759
Other Financial Instruments					
Assets:					
Cash	$ 14	$ 14	$ –	$ –	$ 14
RABs	1,556	–	–	2,180	2,180
ABSs	1,033	–	1,000	–	1,000
Loans	1,318,967	–	–	1,335,286	1,335,286
Other Financial Assets	$ 1,321,570	$ 14	$ 1,000	$ 1,337,466	$ 1,338,480
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,048,130	$ –	$ –	$ 1,061,396	$ 1,061,396
Other Financial Liabilities	$ 1,048,130	$ –	$ –	$ 1,061,396	$ 1,061,396

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 791	$ 791	$ –	$ –	$ 791
Recurring Assets	$ 791	$ 791	$ –	$ –	$ 791
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,363	$ –	$ –	$ 1,363	$ 1,363
Other property owned	31	–	–	34	34
Nonrecurring Assets	$ 1,394	$ –	$ –	$ 1,397	$ 1,397
Other Financial Instruments					
Assets:					
Cash	$ 561	$ 561	$ –	$ –	$ 561
RABs	2,423	–	–	2,956	2,956
ABSs	1,337	–	1,296	–	1,296
Loans	1,260,851	–	–	1,266,355	1,266,355
Other Financial Assets	$ 1,265,172	$ 561	$ 1,296	$ 1,269,311	$ 1,271,168
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,005,717	$ –	$ –	$ 1,010,367	$ 1,010,367
Other Financial Liabilities	$ 1,005,717	$ –	$ –	$ 1,010,367	$ 1,010,367

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.

Investments in Debt Securities

The fair values of predominantly all Level 3 investments in debt securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease). Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value		Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$	1,024	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement costs	*
				Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
RABs	Discounted cash flow	Prepayment rates Risk adjusted discount rate
ABSs	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

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 $2,531 for 2021, $2,084 for 2020, and $1,744 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 87.55percent 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 $428 for 2021, $389 for 2020, and $398 for 2019. The total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $209,599, $219,990, and $209,531 at December 31, 2021, 2020, and 2019, respectively.

The Association also participates in the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1,098, $1,012, and $953 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, $22, $(21), and $(45) 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 $587 and a net under-funded status of $587 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 $33, $35, and $42 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 $127,319. During 2021, $214,370 of new loans were made and repayments totaled $198,797.

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, $398,940 of commitments to extend credit and $5 of commercial letters of credit were outstanding with a related reserve for unfunded commitments of $410 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 $3,766 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 $3,766.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

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

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

	December 31,		
	2021	2020	2019
Federal tax at statutory rate	$ 8,380	$ 6,770	$ 5,702
Patronage distributions	(3,675)	(3,045)	(2,730)
Tax-exempt FLCA earnings	(8,294)	(7,357)	(6,418)
Dividend from FLCA	3,671	3,045	2,730
Allocated Bank Stock Redemption	233	–	–
Change in deferred tax asset valuation allowance	(316)	580	717
Adjustment for lower statutory rate	–	–	–
P/Y Provision to Return, Permanent Trueup	–	–	(20)
Meals & Entertainment	1	7	19
Other	–	–	–
Provision (benefit) for income taxes	$ –	$ –	$ –

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

	December 31,		
	2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	$ 317	$ 437	$ 452
Deferred Revenue –Merger	164	166	168
Net operating loss – carryforward	11,031	11,021	10,159
Nonaccrual loan interest	24	208	169
Loss Reserve –Letters of Credit	60	63	52
Non qualified allocations	–	–	–
Gross deferred tax assets	11,596	11,895	11,000
Less: valuation allowance	(10,703)	(11,084)	(10,380)
Gross deferred tax assets, net of valuation allowance	893	811	620
Deferred income tax liabilities:			
Bank patronage allocation	(858)	(747)	(562)
Loan Origination Fees	(35)	(64)	(58)
Gross deferred tax liability	(893)	(811)	(620)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2021, deferred income taxes have not been provided by the Association on approximately $4.6 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. In 2021, $1.1 million of bank stock was redeemed for cash.

The Association recorded a valuation allowance of $10.7 million, $11.1 million and $10.4 million 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 Association has Federal loss carryforwards totaling approximately $43.5 million that expire in varying amounts beginning in 2023. Of this loss carryforward, $0.1 million of non-pat carryforwards and $12.3 million of pat carryforwards were generated starting in the year 2018 and therefore have no expiration date. The Association also has state loss carryforwards totaling approximately $43.3 million that expire in varying amounts beginning in 2023. The valuation allowance at December 31, 2021 was primarily related to federal and state loss carryforwards that, in the judgment 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 2018 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2021				
	First	Second	Third	Fourth	Total
Net interest income	$ 8,972	$ 8,742	$ 8,765	$ 8,727	$ 35,206
Provision for (reversal of allowance for) loan losses	(654)	(726)	(200)	–	(1,580)
Noninterest income (expense), net	(2,567)	(2,268)	(2,483)	10,436	3,118
Net income	$ 7,059	$ 7,200	$ 6,482	$ 19,163	$ 39,904

	2020				
	First	Second	Third	Fourth	Total
Net interest income	$ 8,872	$ 8,406	$ 8,337	$ 8,504	$ 34,119
Provision for (reversal of allowance for) loan losses	572	369	74	499	1,514
Noninterest income (expense), net	(2,165)	(2,746)	(2,579)	7,122	(368)
Net income	$ 6,135	$ 5,291	$ 5,684	$ 15,127	$ 32,237

	2019				
	First	Second	Third	Fourth	Total
Net interest income	$ 8,441	$ 8,563	$ 8,392	$ 9,167	$ 34,563
Provision for (reversal of allowance for) loan losses	660	(885)	(600)	287	(538)
Noninterest income (expense), net	(2,669)	(2,848)	(3,070)	639	(7,948)
Net income	$ 5,112	$ 6,600	$ 5,922	$ 9,519	$ 27,153

Note 14 — Subsequent Events

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

After more than 47 years in the Farm Credit System, Robert W. Teston, President and Chief Executive Officer announced his intention to retire on March 31, 2022. After a nation-wide search, Marcus A. Boone, Chief Lending Officer, was selected as President and Chief Executive Officer effective January 1, 2022. Robert W. Teston has assumed the role of Chief Operating Officer until his retirement.

On March 1, 2022, the Association provided notice to Puerto Rico Farm Credit of non-renewal of the services agreement effective on the annual renewal date in September 2022.

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