



2021

ANNUAL REPORT



A man, a woman, and a child are walking through a vast, golden wheat field at sunset. The man is on the left, wearing a hat and a patterned shirt. The woman and child are on the right, looking at something the child is holding. The field is filled with tall, golden wheat, and the background shows a dark treeline under a warm, orange sky.

OUR CORE PURPOSE

To assist farmers, growers, and harvesters of forestry and aquatic products, agribusinesses, and rural residents in achieving success.

OUR CORE VALUES

- We nurture customer relationships.
- We strive to exceed our customers' expectations with superior products and services.
- We provide courteous and prompt assistance.
- We are honest and fair with everyone.
- We are good corporate citizens.
- We achieve success through teamwork.
- We price our products and services equitably based on cost, risk, and competition.
- We return as much of our profits as possible in patronage refunds.



CONTENTS

- 4 Message from the Chairman of the Board and the Chief Executive Officer
- 5 Board of Directors and Leadership Team
- 6 Diversity in Agriculture – It’s Not Just About Different Crops
- 12 Financial Results

MESSAGE FROM THE CHAIRMAN OF THE BOARD AND THE CHIEF EXECUTIVE OFFICER

Colonial Farm Credit (Association) continued its mission of supporting rural communities and agriculture with reliable, consistent credit and financial services in 2021.

The COVID-19 pandemic continued to cause significant challenges, and we operated under our business continuity plan throughout the year. Our technology platforms allowed us to operate remotely to help reduce risks. At the same time, we kept our offices open to meet the needs of our members. We remain very well positioned to help our customers – see more on this below.

Weather conditions and commodity prices were favorable for many segments of agriculture, and the harvest season for most producers went well. Still, we continued our annual initiative to talk with customers during the fall to assess the harvest and anticipated operational results. The analysis and conclusions reached from this initiative indicate that credit risk remains low and very manageable for our Association.

Loan demand was good for land, residential construction, and equipment financing. 2021 average month-end loan principal was 4.0% higher than 2020.

Credit quality remained very sound. At year end, non-earning assets (mainly loans for which the accrual of interest has been stopped) was 0.1 percent of total assets. This mirrors the lowest levels we've seen in over 13 years.

Net income in 2021 was \$20.7 million. This record income level was significantly higher than budgeted earnings. The uptick was supported mainly by these positive and non-recurring events:

- A \$7.2 million special distribution from AgFirst Farm Credit Bank (our funding bank) resulting from a historic reduction in market interest rates and AgFirst's ability to reduce its expenses through called (i.e., refinanced) debt, and
- Provision for loan losses \$1.0 million lower than budget (also significantly lower than historical averages).

Our earnings, strong credit quality, and strong capital position allowed your board of directors to approve a patronage refund of \$18.5 million, which is the highest patronage level that we have paid in our history.

The \$18.5 million distribution will be paid out in April 2022. This compares very favorably to the budgeted refund of \$8.3 million and is driven by the unanticipated and non-recurring special distribution from AgFirst noted above. We expect patronage distributions to return to previously budgeted amounts in future years.

This is the 24th consecutive year that we have returned a portion of our profits to our customers. We are pleased to be in the financial position to return these earnings to you during another year of challenges and uncertainty.

During 2022, we will continue to focus our efforts on serving the credit needs of all eligible customers and assisting customers who have been adversely impacted by difficult economic conditions.

As the Farm Credit System enters its 106th year, your cooperative is positioned to prosper in any foreseeable environment by virtue of our strong financial position, diverse and high quality loan portfolio, sound underwriting standards, skilled and dedicated employees, and exceptional governance. Our combination of competitive rates, patronage refunds, personal service, and extensive local knowledge is unmatched in the financial services world.

Thank you for your loyalty and support. We look forward to serving your financial needs in 2022 and beyond.

A. Kevin Monahan



Chairman of the Board

Paul B. Franklin, Sr.



Chief Executive Officer



BOARD OF DIRECTORS

First Row Left to Right:

A. Kevin Monahan
L. Wayne Kirby
Hugh S. Jones
John E. Bickford

Jeffrey W. Griffith
Paul W. Rogers, Jr.

Second Row Left to Right:

Clarke E. Fox
Robert M. Jones

Third Row Left to Right:

R. Bertsch Cox
Steven H. Walter
Robert R. Womack
Frankie R. Large

John N. Mills, Jr.
William T. Henley, IV

Not Pictured:

Jennifer U. Cuthbertson

LEADERSHIP TEAM

Left to Right:

Michael J. Lacks
 Chief Lending Officer -
 Commercial Loans

Paul B. Franklin, Sr.
 President and
 Chief Executive Officer

Patrick J. Tewell
 Chief Credit Officer

Ronnie G. Gill
 Chief Lending Officer -
 Branch Operations

Diane S. Fowlkes
 Chief Financial Officer

Not Pictured:

Karen Suzanne Nicely
 Chief Human Resources Officer
 and Corporate Secretary



DIVERSITY IN AGRICULTURE — IT'S NOT JUST ABOUT DIFFERENT CROPS

Sometimes, people have a vision of what the American farm and farmer look like, from the size and type of operation to the demographic make-up of the individual. Diversity in farming can mean different crops or livestock, but it can also include background and demographics such as age, ethnicity, gender, and/or veteran status. The latest ag census shows there is more and more diversity in farm operators and managers, as well as types of operations, and these are trends that will continue in the future. For this article, we interviewed six diverse farmers from across the Colonial Farm Credit territory who shared their farming story, challenges they have faced or continue to face, their unique experiences and perspectives that have aided them in their operation, and advice they have for others wanting to get in to farming.



BYRON JENKINS, JR.

JENKINS CATTLE FARM

Hanover, VA

Byron Jenkins has been involved in farming his whole life and, even though he has done other things, he has always had the heart and passion for farming, which drove him to start his own operation three years ago. Byron is a hay producer who also does custom cutting and baling as well as owns a Black Angus cow calf operation. Byron was



constantly told not to farm and that there is more bad than good in it, but he was determined to try for himself. His love of equipment along with his desire to keep his family's legacy alive and be a part of taking care of the land and livestock far outweighed anyone's attempts to deter his dreams. Seeing what God and his hard work has done is all he needs to keep working towards his goals.

Land prices and availability have been challenges that Byron has faced as a farmer. Being a young minority farmer has also posed challenges, including being judged differently as a person of color. "Each and every one of us needs to stick together. We all love agriculture and need to keep things in line so we can keep doing it!" Byron also recognizes



that you must have grit and thick skin in farming and if you took to heart what everyone else thought, you wouldn't get very far. Byron credits his farming success to his faith in God, his versatility and work ethic, and coming from a talented family. 🌱

"Always believe in yourself and follow your heart no matter what anyone says or thinks."



KIM PUGH

SUMMERWIND VINEYARD

Smithfield, VA

Kim Pugh and her husband Allen love drinking wine and in 2005 thought it would be fun to grow vinifera grapes to sell to wineries. They continued that venture for 10 years until they

decided to make their own wine in 2017 and opened a tasting room in 2018, which has turned into a true family operation where the majority of the work on their 11 acre vineyard is done by hand. Planting and harvesting are large jobs that require the help of family, friends, and outside labor. Kim handles daily vineyard work, such as disease and pesticide evaluation, and also helps in the tasting room as needed. Allen, a Navy veteran, has a full time off-farm job but does the spraying, grass cutting, and taking care of equipment for the vineyard. Their daughter Meagan manages the tasting room and handles the website and social media accounts. Originally from Pennsylvania, Kim comes from a restaurant/tavern family where her daughter also worked for a couple of years. Both have customer service experience that has been very helpful on the tasting room side of the business. Kim was also a registered nurse in nephrology for 25 years and has a background in chemistry and microbiology, which helps her in being able to better understand the basics of living things, including grape vines.

continued next page



Along with her love of wine, Kim is a former Master Gardener which furthered her desire to grow grapes. However, she was not formally trained in the practice and only having a minute amount of the knowledge needed, she didn't think it would be as hard as it is. She has had vineyard consultants over the years to assist, especially since southeastern Virginia is not the best suited area to grow grapes. In her region, there are not many female grape growers but there are lots of row crop operations which made it difficult to get chemicals in the past – a challenge that has since been overcome. The operation also faces the challenge of finding help during the

season, especially those with the necessary knowledge in an area where growing grapes is scarce. Kim knows her level of expertise and, being a former RN, has the ability to recognize when she has exhausted all of her options and needs to make decisions or involve folks that can help with both the vineyard and business side of things. 🍷

"You have to like what you are doing, recognize that it will be hard work, and appreciate the help that you have and can get from others."



MICHAEL FAULK

City of Suffolk, VA

Michael Faulk knows what it's like to have farming in his blood. When he was a toddler, his grandfather would put him in a box he had built on the side of the Farmall tractor and ride Michael around until he fell asleep. His love for farming stayed with him all of his life. He worked on the farm with his father growing peanuts, corn, and soybeans until his father's passing in 2009. He is now a one-man operation growing 375 acres



of soybeans in the City of Suffolk and Southampton County, with hopes to get back into peanuts in the future. Michael's parents persuaded him to seek off-farm employment so he went to work for the Natural Resources and Conservation Service, retiring in January of 2021. Working in the agriculture industry, as well as having associate's degrees in agronomy and agribusiness, has helped Michael in his own operation over the years. Being able to work with and get along with other farmers has contributed to his success.

Michael knows that farming in general has its challenges with changing weather and global warming, but notes that now it seems the changes are more severe with either extreme drought or extreme wetness. In addition to weather changes, being a minority in farming has its own challenges and it would have been difficult to be successful as just a farmer. His father had three jobs, including farming, which helped

lead Michael to seek his off-farm job. He recognizes that you have to understand that you can't always do it on your own and need to be willing to venture out and work with banks when needed to help you be successful. If there's one attribute that Michael urges new farmers to have, it's patience. 🌱

"Learn to have patience and a good understanding of the environment."

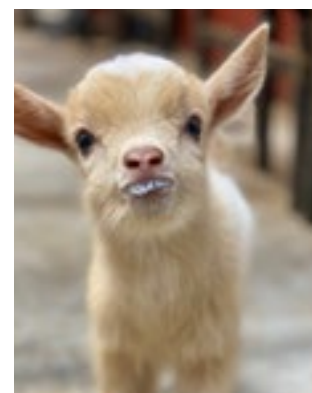


SHELLEY GHOLSON

RIVERWATCH FARM

West Point, VA

In 2015, when Shelley Gholson was told by a county assessor that she needed to rezone her property to non-ag because farming was too hard, that was just the driving force she needed to make the change from owning chickens for fun in Maryland to raising Nigerian dwarf dairy goats. Being an army wife to a deployed husband and having four children at home were not obstacles and were instead motivation for Shelley to be successful. In 2018, the Gholson's moved from Maryland to West Point, Virginia where they opened Riverwatch Farm, a micro dairy and American Dairy Goat Association (ADGA) dairy goat breeding operation where they average 30 goats at any given time. The small, family operation has grown much faster than Shelley could have imagined. Currently, Riverwatch provides goat's milk to local farms and soapmakers to use in their products as well as offers a herd share program where folks can purchase a share for a monthly boarding fee, which provides them access to a portion of the raw goat's milk. They also launched their Baby Bottle Bliss program in 2020 where visitors can schedule private visits to feed baby goats, which has been wildly successful.



Being a female farmer has its challenges, with physical labor being the largest one. With Shelley's husband David still working for the Department of Defense, she has enlisted the help of her son-in-law to overcome those challenges and her 13 year old son Zachary also helps with daily farm chores. Raising livestock also has its challenges and you have to be willing to make mistakes and learn along the way. Being an army brat and having an army spouse has equated to 28 moves over Shelley's lifetime which meant she developed the ability to adapt to changes easily. Having kids and a spouse on deployment has also taught her to be creative and not depend on outside resources for help, all of which is helpful when raising livestock. 🌱

"Don't get discouraged because you are a female because all it takes is creativity. Slow down and think through a challenge because there is always a workaround."



GINA DEJESUS

WHETSTONE AND THE PASTURES

Nottoway, VA

As a little girl, Gina DeJesus dreamed of horses and her dreams came to fruition years ago when she and her late husband, Fendell, purchased five horses and a trailer but had no farm to bring them home to. When the place where Fendell was a cattleman opened up for sale, they purchased the farm and subsidized their livelihood. She always wanted to live on a farm and leave the farm work to her husband. After his sudden death in 2007, Gina found herself as a solo rancher and eventually found her limit of four male horses to care for. She also currently leases out several pastures to young farmers for

their crops and oversees a forest of pine trees. It is her goal to make the property a place where people can come for spiritual renewal and that is sustainable with animals, gardens, and a fishing pond. Being a former Army Chaplain, she sees the need for both active military and veterans to have a place to visit for their mental, physical, and spiritual well-being. Gina is currently a pastor in the Virginia Conference of the United Methodist Church that recognizes the things in her life are to be shared and it brings her joy to know she has helped someone enjoy the outdoors in a safe environment.

Financing the farm as a female of color and a veteran has been challenging for Gina. She would love to hire a farm hand for when large projects arise but currently can't have anyone on salary. Because of this, she knows there are times she has to just "suck it up" and move forward. That mentality recently allowed her to successfully put up T-posts in one of her pastures all by herself. Farming has its constant projects, which can become overwhelming and cause Gina to feel like giving up but instead she stays the course and works away at each one a little at a time. She knows it is hard work and expensive, but the benefits are worthwhile because she does what she loves. She encourages anyone getting in to farming to allow God to show you the steps, pray, and have faith that what you are hoping for will come to pass in its season. 🌱

"The farm is an equal opportunity employer that doesn't care who does it, as long as it is cared for."





SUSIE HANCE-WELLS

TANEY PLACE FARM AND BATTLE CREEK BEEF

Calvert, MD

In farming, sometimes you have to make the decision to make big changes in your operation which is something Susie Hance-Wells has experienced over the years. From a tobacco farm, to a livestock only operation with horse boarding, to now a farm-to-table operation, Taney Place Farms and Battle Creek Beef consists of 400 working acres where angus cattle, hogs, and chickens are raised for local restaurants and caterers and are for sale at their farm store and a local farmers' market. Susie is no stranger to farming having grown up on a farm and had to be pushed off the farm to attend college. After returning from school to help on the farm because her father

was the Secretary of Agriculture for the state of Maryland at the time, Susie knew after six months that farming was what she wanted to do so she got her own tobacco crop and cattle and started her own operation. When her dad got out of farming, Susie took over his operation and with the help of her husband and a part-time helper, they were working 900 acres with 200 head of feeder cattle and later added horse boarding. When her son returned home to join the family operation, they stopped boarding horses and switched to the farm-to-table business seven years ago.

Susie's love for farming never left her. In college she was encouraged to study agriculture journalism because farming would be too hard. Six months into her education she knew what she wanted to do and changed her focus to general agriculture with a concentration in livestock management and a minor in agriculture education. In the 1970's, she was one of the only females in her classes when she started college. When she graduated, it had shifted to about half male, half female. Susie never wanted to be accepted as a "female farmer" but wanted to be respected for her abilities as a farmer and manager. Being a female farmer has its limitations of physical strength but it also has its opportunities in bringing different perspectives to decision making, which has helped in her operation as well as in her roles on various local boards. She notes that women have always been an integral part of farming in one way or another, just not always recognized for it. Her strengths in management, risk management, and efficiency work well in the operation with her husband who possesses different strengths, each bringing their own to the operation. Being involved in farming her whole life, Susie knows you have to have a certain disposition for it. You also must be willing to listen to those who have done it before you and have a desire to never stop learning. 🌱

"If you have the desire and dream, you can make it happen. Don't ever let anyone tell you that you can't do it. Where there's a will, there's a way."



Colonial Farm Credit, ACA

2021 ANNUAL REPORT

Contents

Report of Management	1
Report on Internal Control over Financial Reporting	2
Consolidated Five-Year Summary of Selected Financial Data	3
Management's Discussion & Analysis of Financial Condition & Results of Operations	4-17
Disclosure Required by FCA Regulations	18-25
Report of the Audit Committee	26
Report of Independent Auditors	27-28
Consolidated Financial Statements.....	29-32
Notes to the Consolidated Financial Statements	33-55

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Colonial Farm Credit, 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 Colonial Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

/s/ A. Kevin Monahan
Chairman of the Board

/s/ Paul B. Franklin, Sr.
Chief Executive Officer

/s/ Diane S. Fowlkes
Chief Financial Officer

March 10, 2022

Report on Internal Control Over Financial Reporting

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

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

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

/s/ Paul B. Franklin, Sr.
Chief Executive Officer

/s/ Diane S. Fowlkes
Chief Financial Officer

March 10, 2022

Consolidated Five - Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	December 31,				
	2021	2020	2019	2018	2017
Balance Sheet Data					
Cash	\$ 44	\$ 157	\$ 550	\$ 66	\$ 66
Loans	751,079	722,734	677,201	670,269	636,119
Allowance for loan losses	(2,625)	(2,596)	(2,365)	(2,245)	(2,427)
Net loans	748,454	720,138	674,836	668,024	633,692
Equity investments in other Farm Credit institutions	6,151	6,616	7,066	6,809	6,890
Other property owned	—	—	535	37	—
Other assets	19,717	18,325	15,755	17,585	16,719
Total assets	\$ 774,366	\$ 745,236	\$ 698,742	\$ 692,521	\$ 657,367
Notes payable to AgFirst Farm Credit Bank*	\$ 556,606	\$ 529,440	\$ 489,386	\$ 484,103	\$ 456,390
Accrued interest payable and other liabilities with maturities of less than one year	24,451	25,047	21,014	21,695	16,812
Total liabilities	581,057	554,487	510,400	505,798	473,202
Capital stock and participation certificates	5,699	5,520	5,238	5,047	4,795
Unallocated retained earnings	187,951	185,679	183,461	181,684	179,414
Accumulated other comprehensive income (loss)	(341)	(450)	(357)	(8)	(44)
Total members' equity	193,309	190,749	188,342	186,723	184,165
Total liabilities and members' equity	\$ 774,366	\$ 745,236	\$ 698,742	\$ 692,521	\$ 657,367
Statement of Income Data					
Net interest income	\$ 22,245	\$ 21,892	\$ 21,302	\$ 21,403	\$ 19,070
Provision for (reversal of allowance for) loan losses	(7)	234	6	(78)	(337)
Noninterest income (expense), net	(1,512)	(1,526)	(4,608)	(3,122)	40
Net income	\$ 20,740	\$ 20,132	\$ 16,688	\$ 18,359	\$ 19,447
Key Financial Ratios					
Rate of return on average:					
Total assets	2.82%	2.85%	2.45%	2.76%	2.99%
Total members' equity	10.45%	10.28%	8.61%	9.57%	10.66%
Net interest income as a percentage of average earning assets	3.08%	3.17%	3.20%	3.29%	3.00%
Net (chargeoffs) recoveries to average loans	0.005%	0.000%	0.017%	(0.016)%	(0.038)%
Total members' equity to total assets	24.96%	25.60%	26.95%	26.96%	28.02%
Debt to members' equity (:1)	3.01	2.91	2.71	2.71	2.57
Allowance for loan losses to loans	0.35%	0.36%	0.35%	0.33%	0.38%
Permanent capital ratio	24.33%	25.19%	26.71%	26.26%	26.05%
Common equity tier 1 capital ratio	24.25%	25.10%	26.62%	26.17%	25.94%
Tier 1 capital ratio	24.25%	25.10%	26.62%	26.17%	25.94%
Total regulatory capital ratio	24.61%	25.47%	26.99%	26.52%	26.38%
Tier 1 leverage ratio	25.97%	26.80%	27.90%	27.85%	27.72%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	25.91%	26.84%	27.94%	27.93%	27.85%
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 18,466	\$ 17,914	\$ 14,902	\$ 16,117	\$ 11,046

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

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

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of eastern Virginia and southern Maryland. 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 could be 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 2832, or writing to Susanne Caughman, 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.colonialfarmcredit.com, or by calling 1-804-746-1252, or writing to Diane Fowlkes, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville,

VA 23111. 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 internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

COVID-19 OVERVIEW

In response to the COVID-19 pandemic, and without disruption to operations, the Association transitioned the vast majority of its employees to working remotely in mid-March 2020. The priority was, and continues to be, to ensure the health and safety of employees, while continuing to serve the mission of providing support for rural America and agriculture. The Association expects deactivate its Business Continuity Plan in early April and employees will begin returning to their

respective offices on a full-time or part-time basis, if approved for a remote work schedule.

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

COVID-19 Support Programs

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

The farm sector and farm households were among those impacted and were provided financial assistance through the U.S. Department of Agriculture (USDA) and other government agency programs. Among the many programs was the Paycheck Protection Program (PPP). The PPP provided support to small businesses to cover payroll and certain other expenses. Loans made under the PPP are fully guaranteed by the Small Business Administration (SBA), whose guarantee is backed by the full faith and credit of the United States government. Over the life of the program, the District extended loans to approximately 9,900 borrowers. As of December 31, 2021, the Association had \$277 thousand of these loans outstanding. 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 \$4.3 million.

CLIMATE CHANGE

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

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

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

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 fair 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, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan

portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

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

Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

The US economy, in terms of gross domestic product, grew 5.7% in 2021, the largest annual increase since 1984 as the pandemic's effects eased. The economic lift was largely provided by vaccination efforts, cheap credit conditions put in place by the Federal Reserve, and a fresh round of federal aid to households and businesses. 2021 was defined by very strong policy support, and 2022 is going to be defined by the removal of that support by Congress and the Fed alike.

The initial momentum provided by government stimulus is projected to diminish, and the Fed is planning to use its policy tools in the coming months to try to rein in inflation by gradually raising borrowing costs. The International Monetary Fund, citing tighter Fed policy and an anticipated halt to any further stimulus spending by Congress, reduced its U.S. growth forecast for 2022 to 4 percent. But this increase would still outpace the annual average from 2010 to 2019, and most economists believe that activity should pick up as spring approaches.

Import prices were 10.4 percent higher in December than a year ago, according to the Labor Department. Many business, large and small, are preparing for supply chain issues to stretch beyond the summer, maintaining pressure on prices. This is an unwelcome sign for workers whose purchasing power has been dented by costlier goods. Consumer prices increased 7 percent during 2021.

The U.S. housing market has had an outstanding year. Home sales are on track to reach the highest level in 15 years, with an estimated 6 million homes sold in 2021. The average home price increased nearly 20% through the third quarter compared to a year ago, according to the Federal Housing Finance Agency. It was the largest annual home price increase in the history of the agency's House Price Index. While mortgage rates kicked off at record lows, it was difficult to even find a home to buy as inventory was low, and competition was extremely stiff.

Economic conditions in Virginia and Maryland generally followed national statistics. Home prices will likely continue to rise throughout 2022, but at a more moderate pace. Mortgage interest rates are trending up and are expected to continue rising. New construction will continue to face challenges on multiple fronts (material price surges, supply-chain issues, regulatory constraints, labor shortages, etc.). On the existing home side, there are signs that overall supply is improving, and there should be some return to market seasonality.

LOAN PORTFOLIO

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

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31,					
	2021		2020		2019	
Real estate mortgage	\$ 514,107	68.45 %	\$ 478,540	66.21 %	\$ 435,210	64.27 %
Production and intermediate-term	159,690	21.26	164,816	22.80	171,757	25.36
Loans to cooperatives	4,822	0.64	4,636	0.64	4,278	0.63
Processing and marketing	19,761	2.63	20,120	2.78	18,672	2.75
Farm-related business	4,521	0.60	5,030	0.70	5,730	0.85
Communication	211	0.03	—	—	578	0.09
Power and water/waste disposal	290	0.04	720	0.10	2,215	0.33
Rural residential real estate	44,371	5.91	45,565	6.30	35,455	5.23
International	3,306	0.44	3,307	0.46	3,306	0.49
Total	\$ 751,079	100.00 %	\$ 722,734	100.00 %	\$ 677,201	100.00 %

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

The Association has a regional office in Hughesville, Maryland. All other regional offices are in the state of Virginia. The geographic distribution of loans by regional office for the past three years is as follows:

Regional Office	December 31,		
	2021	2020	2019
Farmville	26.01 %	26.79%	26.16%
Hughesville	11.37	10.81	10.22
Mechanicsville	21.25	29.85	30.19
Tappahannock	18.74	9.55	9.30
Windsor	22.63	23.00	24.13
	100.00 %	100.00%	100.00%

Significant fluctuations in loan volume between the Mechanicsville and Tappahannock regional offices for 2020 and 2021 is the result of realigning the counties served by each office as of January 1, 2021.

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

The major commodities in the Association's loan portfolio are shown below. As an additional hedge against agriculture industry risk, 61 percent of the Association's loans at December 31, 2021 were made to borrowers whose repayment capacity was highly dependent upon off-farm income.

Commodity Group	Percent of Portfolio		
	2021	2020	2019
Field Crops	29%	29%	30%
Timber	33	32	30
Part-time Farmers and Other	18	18	19
Livestock	14	15	16
Rural Home	6	6	5
Total	100%	100%	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers, including part-time farmers. The Association's loan portfolio includes field crops such as cash grains, peanuts, tobacco, and cotton; timber products; and livestock operations including poultry, dairy, beef cattle, swine, and horses. Many of these operations are diversified within their enterprise and/or with crop production, which reduces overall risk exposure. Demand, supply, weather, and international trade are some of the factors affecting the prices of these commodities. Even though the number and average loan size has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2021, is primarily attributed to increased demand for loans to finance real estate.

Over the past few years, the majority of the Association's growth has come from real estate mortgages, which make up over 68 percent of the Association's portfolio. Production and intermediate-term loans are also a substantial portion of the portfolio. The short-term portfolio, which is comprised heavily of working capital loans, normally reaches a peak balance in late summer and rapidly declines in the fall months as commodities are marketed and proceeds are applied to these loans. While working capital loan balances were repaid in the fall, outstanding balances increased during December to prepay operating expenses for the coming season.

During 2021, the Association continued buying loan participations within the System on a selective basis. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income. Competition for quality credits has been strong for the past several years.

Loan Participations:	December 31,		
	2021	2020	2019
Participations Purchased			
– FCS Institutions	\$ 54,791	\$ 51,862	\$ 54,464
Participations Sold	(277)	(886)	–
Total	\$ 54,514	\$ 50,976	\$ 54,464

In 2021, the Association originated loans under the SBA Payroll Protection Program (PPP). These loans were subsequently sold to AgFirst and the Association retained servicing of the loans.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, the Association originated loans for resale totaling \$35,301 in 2021, \$43,609 in 2020, and \$43,468 in 2019, which were sold into the secondary market.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association reviews the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to the lending staff. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

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 real estate loans must be collateralized by first liens on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long term real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for most real estate loans of more than \$250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Following, are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible, but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

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

Credit Quality	2021	2020	2019
Acceptable & OAEM	99.52	99.33%	99.13%
Substandard	0.48	0.67%	0.87%
Total	100.00%	100.00%	100.00%

The Association had no loans with credit quality of Doubtful or Loss for the reporting periods above.

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

High-risk Assets	December 31,		
	2021	2020	2019
Nonaccrual loans	\$ 1,032	\$ 1,122	\$ 2,344
Restructured loans	347	391	443
Accruing loans 90 days past due	—	—	—
Total high-risk loans	1,379	1,513	2,787
Other property owned	—	—	535
Total high-risk assets	\$ 1,379	\$ 1,513	\$ 3,322
Ratios			
Nonaccrual loans to total loans	0.14%	0.16%	0.35%
High-risk assets to total assets	0.18%	0.20%	0.48%

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 \$90 or 8.0 percent in 2021. The reduction in nonaccrual loans in 2021 was primarily due to a significant number of accounts returning to accruing status due to improved performance, and one large account that paid in full. Of the \$1.0 million in nonaccrual volume at December 31, 2021, \$689 or 67 percent, compared to 38 percent and 70 percent at December 31, 2020 and 2019, respectively, were current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be reinstated to accrual status.

Loan restructuring is available to financially distressed borrowers who meet certain criteria. 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 determined according to generally accepted accounting principles and 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:

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2021	2020	2019
Balance at beginning of year	\$ 2,596	\$ 2,365	\$ 2,245
Charge-offs:			
Real estate mortgage	(1)	(1)	(6)
Agribusiness	—	—	—
Rural residential real estate	—	—	—
Production and intermediate-term	(28)	(58)	(27)
Total charge-offs	(29)	(59)	(33)
Recoveries:			
Real estate mortgage	19	31	26
Agribusiness	—	—	—
Rural residential real estate	—	—	27
Production and intermediate-term	46	25	94
Total recoveries	65	56	147
Net (charge-offs) recoveries	36	(3)	114
Provision for (reversal of) loan losses	(7)	234	6
Balance at end of year	\$ 2,625	\$ 2,596	\$ 2,365
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.00%	(0.00)%	0.017%

The net loan charge-offs were primarily associated with default occurring in loans that were under-collateralized. Several nonaccrual loans were fully collected during the year. The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2021	2020	2019
Real estate mortgage	\$ 1,783	\$ 1,693	\$ 1,488
Production and intermediate-term	574	623	637
Agribusiness	101	105	98
Communication	1	—	2
Power and Water/Waste Disposal	1	2	8
Rural residential real estate	154	161	121
International	11	12	11
Total allowance	\$ 2,625	\$ 2,596	\$ 2,365

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	0.35%	0.36%	0.35%
High-risk loans	190.36%	171.58%	84.86%
Nonaccrual loans	254.36%	231.37%	100.90%

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

RESULTS OF OPERATIONS*Net Interest Income*

Net interest income, the difference between interest income and interest expense, was \$22,245, \$21,892 and \$21,302 in 2021, 2020, and 2019, respectively. 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
12/31/21 - 12/31/20				
Interest income	\$ 1,669	\$ (2,135)	\$ (58)	\$ (524)
Interest expense	757	(1,634)	—	(877)
Change in net interest income	\$ 912	\$ (501)	\$ (58)	\$ 353
12/31/20 - 12/31/19				
Interest income	\$ 1,578	\$ (3,234)	\$ 265	\$ (1,391)
Interest expense	865	(2,846)	—	(1,981)
Change in net interest income	\$ 713	\$ (388)	\$ 265	\$ 590

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

Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2021/	2020/
	2021	2020	2019	2020	2019
Loan fees	\$ 780	\$ 469	\$ 531	66.31 %	(11.68)%
Fees for financially related services	51	54	67	(5.56)	(19.40)
Lease income	158	142	134	11.27	5.97
Patronage refund from other Farm Credit Institutions	11,241	9,701	6,386	15.87	51.91
Gains on sales of rural home loans, net	548	681	686	(19.53)	(0.73)
Gains on sales of premises and equipment, net	(1)	39	51	(102.56)	(23.53)
Gains (losses) on other transactions	93	25	72	272.00	(65.28)
FCSIC refund	—	121	130	(100.00)	(6.92)
Other noninterest income	76	75	68	1.33	10.29
Total noninterest income	\$ 12,946	\$ 11,307	\$ 8,125	14.50 %	39.16 %

Fee income on loans increased \$311 from 2020 to 2021 primarily as a result of an increase in fees received for originating PPP loans.

The Association receives patronage refunds from the Bank based on its notes payable. In 2021, 2020, and 2019 the Association received a special patronage distribution of \$7,246, \$5,872, and \$2,792 respectively, in addition to the normal patronage of 75 basis points. The special patronage distribution is directly related to the Bank's earnings and capital level, which fluctuate.

Gains on sale of rural home loans decreased \$133 or 19.53 percent for the year ended December 31, 2021 as a result of closing fewer rural home loans in 2021.

Gains on other transactions increased \$68 or 272 percent for the year ended December 31, 2021. The increase in gains is primarily due to gains from pension plan changes due to market performance in 2021.

Gains on sales of premises and equipment decreased by \$40 from 2020 to 2021. In 2020, the Association sold four used fleet vehicles for a total of \$45. Due to a delay in acquisition of replacement vehicles as a result of supply chain issues, no vehicles were sold in 2021.

The Farm Credit System Insurance Corporation (FCSIC) issued no refund in 2021, compared to a refund of \$121 in 2020 based on premiums paid for the prior year relative to the system debt.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2021/	2020/
	2021	2020	2019	2020	2019
Salaries and employee benefits	\$ 10,578	\$ 9,480	\$ 9,219	11.58 %	2.83 %
Occupancy and equipment	522	564	599	7.45	(5.84)
Insurance Fund premiums	836	475	425	76.00	11.76
(Gains)losses on other property owned, net	—	(32)	4	(100.00)	900.00)
Other operating expenses	2,497	2,343	2,478	6.57	(5.45)
Total noninterest expense	\$ 14,433	\$ 12,830	\$ 12,725	12.49 %	0.83 %

Overall, salaries and employee benefits increased from 2020 to 2021. The increase was attributed to an increase in employee salaries, incentives, group health insurance, and pension expense. In addition, deferred personnel costs decreased by \$172.

Insurance Fund premiums increased 76 percent for the year ended December 31, 2021, compared to 2020 as a result of an increase in insured debt outstanding and rate adjustments. FCSIC set premiums at 16 basis points of adjusted insured debt outstanding at the beginning of 2021, and maintained that rate throughout the year. The premium in 2020 was set at 8 basis points at the beginning of the year, and adjusted to 11 basis points mid-year. In addition, there was a 10 basis point premium

on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments for all periods reported.

Fluctuations in gains and losses on other property owned occur as a result of the properties held and changes in the market for them. The Association sold an owned property early in 2020 and the gains recorded exceeded necessary maintenance expenses.

Other operating expenses increased \$154 from 2020 to 2021, primarily due to increased net nonaccrual loan expenses, and increased non-qualified deferred benefit plan expense.

Income Taxes

The Association recorded a provision for income taxes of \$25 for the year ended December 31, 2021, as compared to a provision of \$3 for 2020 and a provision of \$8 for 2019. The increase in tax provision in 2021 is primarily attributed to PPP fee income. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the Year Ended		
	12/31/21	12/31/20	12/31/19
Return on average assets	2.82%	2.85%	2.45%
Return on average members' equity	10.45%	10.28%	8.61%
Net interest income as a percentage of average earning assets	3.08%	3.17%	3.20%
Net (charge-offs) recoveries to average loans	0.005%	0.000%	0.017%

A significant portion of the Association's net income for the past several years has been special patronage distributions from AgFirst. While the Association does not budget for these distributions, they have had a meaningful impact on the ratios in the Key Results of Operations Comparison. Additionally they have been a major contributor to the sizeable patronage distributions returned to the Association's borrowers over the past five years. Special distributions from AgFirst are considered extraordinary, despite recent historical precedence. In order to continue to meet the high standards and goals set for performance, the Association must focus on attracting and maintaining high quality loan volume and managing expenses for income growth, without consideration of future extraordinary income.

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 fund 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, were \$556,606 as compared to \$529,440 at December 31, 2020, and \$489,386 at December 31, 2019. The increases from 2020 to 2021 and from 2019 to 2020 were attributable to increased loan volume. The average volume of outstanding notes payable to the Bank was \$526,890 and \$500,871 for the years ended December 31, 2021 and 2020, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association 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 or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Future of LIBOR

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

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

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

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

On December 8, 2021, the FCA issued another informational memorandum to provide additional guidance to Farm Credit System institutions on their transition away from LIBOR. The guidance encourages Farm Credit System institutions to stop entering into new contracts that reference LIBOR as soon as practicable and in any event no later than December 31, 2021. Entering into new LIBOR-referenced contracts after that date would present safety and soundness risk. The guidance also provides clarity on what the FCA considers a new LIBOR-indexed contract; whether purchases of legacy LIBOR-indexed loans and investments are deemed new contracts; limited exceptions for entering into new LIBOR contracts that reduce or hedge risk in legacy LIBOR contracts; and the due diligence and other procedures required before using other benchmark/reference rate alternatives to LIBOR (beyond SOFR), including credit-sensitive alternative rates. The Association has implemented LIBOR transition plans and continues to analyze potential risks associated with the LIBOR transition, including, but not limited to, financial, market, accounting, operational, legal, tax, reputational, and compliance risks.

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

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

	Due in 2023			
	Due in	(On or	Due After	
(dollars in millions)	2022	Before	June 30,	Total
		June 30,	2023	
Loans	\$ 1,135	\$ 1,677	31,900	\$ 34,712
Total	\$ 1,135	\$ 1,677	31,900	\$ 34,712
Note Payable to AgFirst Farm Credit Bank	\$ 837	\$ 1,237	23,523	\$ 25,597
Total	\$ 837	\$ 1,237	23,523	\$ 25,597

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 less than 0.54 percent of total loans and less than 0.74 percent of Notes Payable maturing after June 30, 2023 do not contain fallback provisions.

Relationship with the Bank

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

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2021 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 1.34 percent to \$193,309 from the December 31, 2020 total of \$190,749. At December 31, 2020, total members' equity increased 1.28 percent from the December 31, 2019 total of \$188,342. The increases were attributed to net income partially offset by cash patronage.

Total capital stock and participation certificates were \$5,699 on December 31, 2021, compared to \$5,520 on December 31, 2020 and \$5,238 on December 31, 2019. The increases in 2020 and 2021 were related to stock purchased by new members.

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) non-patronage sourced 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 estimated patronage distributions of \$18,466 in 2021, \$17,914 in 2020, and \$14,902 in 2019.

The Association's Board of Directors adopted a resolution for 2020 that established separate "pools" for any loans (a) originated under the Farm Credit Express Program, (b) acquired purchased participations (c) sold to another institution and (d) made to all other patrons, based on the income generated by each such group.

Additionally, the resolution also included a provision to exclude interest contractually due in prior years from the basis on which patronage is factored for nonaccrual loans. This provision allows a borrower whose account(s) has been in

nonaccrual status to receive patronage, on the current year's interest obligation, in the year that the account(s) returns to accruing status or is paid in full.

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

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

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

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

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

	As of December 31, 2021	
	Number of Loans	Amount of Loans
Young	1,015	\$95,182
Beginning	2,533	\$274,715
Small	4,472	\$419,768

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 is used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 12,630 reported farmers of which by definition 1,406 or 11.1 percent were Young, 3,939 or 31.2 percent were beginning, and 11,776 or 93.2 percent were small.

Comparatively, as of December 31, 2021, the demographics of the Association's agricultural portfolio contained 5,028 farmers, of which by definition 841 or 16.7 percent were Young, 2,215 or 44.1 percent were Beginning, and 3,666 or 72.9 percent were Small.

The Association currently has a high market share of YBS farmers within its territory. As of December 31, 2021, the Association was doing business with 59.8 percent of the Young farmers, 56.2 percent of the Beginning farmers, and 31.1

percent of the Small farmers identified by the 2017 USDA Ag census data.

In spite of that large market share, the Association made 591 loans to farmers classified as Young, Beginning, or Small for \$59,430 in new volume for the year ending December 31, 2021. The Association has 25 guaranteed loans for \$2,159 to Young, Beginning, and Small farmers, representing 44 percent of the total volume of Association loans that are guaranteed by government agencies.

The board-approved YBS farmer goals for the next three years are to have loans with at least 55.0 percent of Young farmers, at least 55.0 percent of Beginning farmers, and at least 30.0 percent of Small farmers. These goals are based on the 2017 USDA Ag census. Progress towards meeting these goals is reported quarterly to the board of directors.

The following strategies and outreach programs have been conducted, allowing the Association to meet its objectives and goals of the YBS farmer program.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations
- Sponsor seminars on farm transition planning, financial management, and business planning.
- Sponsor extension and grower meetings that have a focus on YBS farmer issues.
- Promote FSA guaranteed loan program for YBS borrowers to allow the Association to manage risk while providing more opportunities and financing to this group
- Promote our youth loan program to provide loans to youth involved in 4H and FFA projects, primarily livestock or crop production
- Support the Colonial Agricultural Educational Foundation and Agriculture in the Classroom programs in Virginia and Maryland
- Support AgDays and other events that promote agriculture to school children.
- Participate with Virginia and Maryland Farm Bureaus in their young farmer programs
- Partner with neighboring Farm Credit Associations to offer the AgBiz Basics and Planner Program. These four and ten-module courses teach Young farmers about financial management and business planning.
- Support YBS activities at Virginia Tech, Virginia State University, and University of Maryland
- Sponsor and partner with local farmers' markets and local food cooperatives
- Offer a small farm loan program that allows for a lower credit score threshold for applicants with small farms who meet other eligibility criteria.
- Provide tools and information for YBS farmers on the Colonial Farm Credit website.
- Periodically feature YBS farmers in the Leader magazine, on social media, and in the Annual Report.

Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized

approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

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

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

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

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

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios:

		Capital Conservation	Minimum Requirement with Capital	Capital Ratios as of		
Ratio	Minimum Requirement	Buffer	Conservation Buffer	2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.50%	7.00%	24.25%	25.10%	26.62%
Tier 1 Capital Ratio	6.0%	2.50%	8.50%	24.25%	25.10%	26.62%
Total Capital Ratio	8.0%	2.50%	10.50%	24.61%	25.47%	26.99%
Permanent Capital Ratio	7.0%	0.0%	7.00%	24.33%	25.19%	26.71%
Non-risk-adjusted:						
Tier 1 Leverage Ratio	4.0%	1.00%	5.00%	25.97%	26.80%	27.90%
UREE Leverage Ratio	1.5%	0.0%	1.50%	25.91%	26.84%	27.94%

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.

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 is open until January 24, 2022.

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

On September 23, 2019, the FCA issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities

would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk-weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

The association is involved in one Unincorporated Business Entities (UBE), which was organized for the purpose of acquiring and managing unusual or complex collateral associated with loans. Colonial OPO, LLC is a limited liability company in Virginia. The sole purpose of Colonial OPO is to acquire, hold, manage, preserve, and if appropriate, operate the assets of acquired property associated with loans until the time such assets may be sold or otherwise disposed.

Description of Property

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

Location	Description	Form of Ownership
7104 Mechanicsville TnPk. Mechanicsville, VA	Administrative/ Regional Office	Owned
135 Queen Street Tappahannock, VA	Regional Office	Owned
18639 Eltham Road West Point, VA	Office	Owned
428 E. Main Street Waverly, VA	Office	Owned
11295 Windsor Boulevard Windsor, VA	Regional Office	Owned
1700-A S. Main Street Farmville, VA	Regional Office	Owned
201 E. Danville Street South Hill, VA	Office	Owned
22323 E. Main Street Courtland, VA	Office	Rented (1) (\$1,080 per month)
7431 Old Leonardtown Road Hughesville, MD	Regional Office	Rented (2) (\$3,820 per month)
13915 Boynton Plank Road Ste B Dinwiddie, VA	Office	Rented (3) (\$900 per month)
22776 Timberlake Road Ste A Lynchburg, VA	Office	Rented (4) (\$1,337 per month)

Location	Description	Form of Ownership
135 Hanbury Road Ste C - 2 Chesapeake, VA	Office	Rented (5) (\$1,504 per month)
2987 River Road West Goochland, VA	Office	Rented (6) (\$1,500 per month)

- (1) 1 year lease terminating on February 29, 2023.
 (2) 3 year lease terminating on May 31, 2022.
 (3) 2 year lease terminating on August 31, 2023.
 (4) 5 year lease terminating on February 28, 2024.
 (5) 3 year lease terminating on July 31, 2023.
 (6) 3 year lease terminating on February 1, 2024.

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 12 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
Paul B. Franklin Sr.	President and Chief Executive Officer since March 2017. Previously served as Chief Lending Officer for the Association. Serves as Treasurer and director for the Hanover Education Foundation (non-profit scholarship administration and education advocacy organization) and a director for the Virginia Agribusiness Council (advocates for the business interests of the diversified industry of agricultural and forestry).
James S. Belfield	Chief Information Officer retired April 30, 2021.
Diane S. Fowlkes	Chief Financial Officer and Treasurer since August 2013. Serves as a director and finance committee chairperson for the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education).
Ronnie G. Gill	Chief Lending Officer -Branch Operations since October 2012. Serves as Treasurer for the Virginia Grain Producers Association (promotion and marketing of grain) and as an elected member of the Essex County Board of Supervisors (effective January 1, 2020). He also serves as a director for the Northern Neck Farm Museum (antique farm museum), and the Virginia Tech College of Agriculture and Life Sciences Alumni Organization (support of college and alumni enrichment).
Michael J. Lacks	Chief Lending Officer-Commercial Loans since March 2017. Previously served as Relationship Manager in the Commercial Loan Group for the Association.
Karen Suzanne Nicely	Chief Human Resources and Corporate Secretary since October 2003.
Patrick J. Tewell	Chief Credit Officer since January 2017. Previously served as Examiner for Farm Credit Administration. Serves as Treasurer for the Virginia Ag Expo (agricultural field).

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/Other*	Total
Paul B. Franklin	2021	\$ 298,004	\$ 69,013	\$ —	\$ 444,567	\$ 17,993	\$ 829,577
Paul B. Franklin	2020	\$ 288,269	\$ 56,434	\$ —	\$ 579,301	\$ 14,951	\$ 938,955
Paul B. Franklin	2019	\$ 274,542	\$ 59,719	\$ —	\$ 565,545	\$ 15,585	\$ 915,391
6	2021	\$ 855,578	\$ 192,642	\$ —	\$ 531,592	\$ 74,214	\$ 1,654,026
6	2020	\$ 920,411	\$ 180,076	\$ —	\$ 1,037,896	\$ 80,722	\$ 2,219,105
7	2019	\$ 883,535	\$ 181,787	\$ —	\$ 1,283,219	\$ 60,177	\$ 2,408,718

* The Perquisites/Other amount disclosed in the above chart includes company contributions to 401(k) plan (See Note 9, Employee Benefits Plans, to the Financial Statements), group life insurance premiums, compensation value for Association provided automobile, spouse travel expense and Farm Credit apparel expense.

The disclosure of information on the total compensation paid during 2020 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

The institution's shareholders have the authority to petition for an advisory vote on CEO and senior officers' compensation. For the year ended December 31, 2021, no advisory votes were held.

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

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. In most cases, an increase in the discount rate assumption from the prior year partially offset by an increase in benefits earned caused the pension values to decrease at December 31, 2021.

At December 31, 2014, the life expectancy actuarial assumption was updated to reflect recent mortality studies indicating longer life spans. This change increased pension values as the benefit payments are expected to be made for a longer time span.

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

Two individuals included in the senior officer or other highly compensated employee group had \$0 changes in the value of pension benefits. Due to their hire dates, they are not eligible for the defined benefit pension plan but participate in the

defined contribution Farm Credit Benefits Alliance 401(k) plan. See *Note 9, Employee Benefit Plans* for additional details.

Prior to the end of each fiscal year the Board reviews the appropriateness of an incentive plan for all Association employees for the following year. In addition to a base salary, employees and senior officers can earn additional compensation under an incentive plan. The Association's 2019 incentive plan was designed to motivate employees to exceed the business plan goals during the fiscal year and covered all staff members employed as of December 31, 2021. A separate incentive plan is in place for appraisal personnel. The plan focused on meeting target earnings, patronage distribution, credit administration, credit quality, and customer service goals. The plan allowed for both individual and group incentives based on performance criteria. Allowable incentives ranged up to 22 percent of base pay at the end of the plan year for senior officers, and up to 19 percent of base pay in effect at the end of the plan year for other employees depending upon their position. Also, all employees are eligible to receive awards based upon 1) years of service or 2) exceptional performance as defined in the plan. Bonuses and incentives are shown in the year earned and are paid in the first quarter of the subsequent year.

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.

The compensation plan for the CEO and other senior officers is approved annually by the Compensation Committee, guided by the following policy objective:

To provide a comprehensive compensation plan that assists management in attracting and retaining professional, motivated, customer-oriented employees, and which appropriately rewards employees taking into consideration competition, local-market compensation levels, expertise, experience and contributions (individual and team) to the association's success. These objectives will be accomplished by:

- Utilizing the AgFirst District salary and grade schedules, as well as other market data and studies, for grade placement, merit increases and salary level.
- Participating in AgFirst District benefit plans, as well as offering other benefits as deemed appropriate by the board.
- Utilizing a combination of salary, variable pay, benefits and special awards.
- Tying compensation to the achievement of business plan objectives and individual goals, and emphasizing balance among the four primary critical performance areas: business development, asset quality, earnings and human resources.
- Providing an honest and objective performance appraisal review to each employee at least annually.

The CEO and other senior officers participate in the identical compensation, retirement, incentive and benefit plans, with the exception of the recently retired CEO's supplemental non-qualified retirement plan, as described below.

Senior officers are paid a competitive, market-based salary commensurate with their tenure, expertise and education. Salary ranges for each position are adjusted periodically based on compensation studies. Senior officers are eligible for an annual salary increase based on merit, as determined by an annual performance appraisal review documenting individual performance relative to individual goals and business plan objectives for the calendar year. The CEO's performance evaluation and any merit increase are approved by the Board of Directors in December, upon recommendation from the Compensation Committee. The CEO prepares and approves the annual performance appraisal review and determines merit increases for other senior officers in February. Merit increases for all senior officers are effective February 1, and generally fall within ranges approved annually by the Compensation Committee. These ranges are differentiated by individual performance rating and current salary relative to the salary range midpoint. Merit increases are typically not granted once an employee reaches the mid-point of the salary range, which is considered the "market value" of the job. Salary ranges are adjusted annually based on market studies.

The Association's salary plan for senior officers (including annual merit increases) provides a base compensation plan that is market-driven, allowing for the attraction and retention of professional managers to implement the Association's strategic and annual business plans. Attracting and retaining high quality employees is critical to the Association's long-term success, including the goal of filling mid-level management and senior officer positions from within. A low rate of senior officer turnover is critical in achieving our mission and providing stable leadership and strong financial performance. Overall senior officer salaries are controlled by the Compensation Committee's approval of salary ranges and merit increase ranges.

Senior officers participate in an incentive compensation plan. The objectives of this plan are to:

- Ensure compensation structure is consistent with the Association's core purpose, core values and strategic business plan,
- Focus decisions and actions on key operating objectives that will provide long-term financial growth and stability to the Association,
- Provide competitive compensation packages in order to attract, motivate, reward and retain superior employees,
- Provide flexibility to management in assigning workload to maximize allocation of resources and expertise,
- Reinforce a sales culture,
- Emphasize teamwork, and
- Respond to an increasingly significant practice of goal oriented cash incentives among financial institutions.

This incentive plan contains several Association-level performance measures which must be met before a payout under either of the two components described below is possible, including: payment of a patronage refund, compliance with funding bank loan agreement covenants, not being under a regulatory enforcement action, and minimum credit management, credit quality and customer service measures.

Payments under either component are based upon performance for the previous calendar year and are made during the first quarter, after the annual external audit is finalized.

The incentive plan contains a profit sharing component. In order to receive payment under this component, the senior officer must receive an “effective” overall annual performance rating, and the Association’s core earnings must be equal to or greater than budget. Payout is in increments from 3 percent up to a maximum of 7 percent of year-end salary, depending upon the level of core earnings relative to budget.

The incentive plan also contains an individual performance incentive component, whereby the senior officer can earn up to an additional 15 percent of year-end salary if his/her annual performance rating falls into the highest quadrant (“highly effective”). The level of incentive paid to the CEO, if any, is approved by the board of directors upon recommendation from the Compensation Committee. Payments to other senior officers are determined by the CEO.

Incentive-based compensation for senior officers is reasonable and proportionate to the services performed and results achieved, and it is structured to prevent undue risk to the Association, by virtue of:

- The plan’s structure which prevents payout if the Association is experiencing financial or credit problems, doesn’t pay a patronage to customers, is not adequately serving its customers or is under a regulatory enforcement action,
- Senior officers having to achieve at least “effective” overall performance ratings to receive payment, and
- The total maximum payment for senior officers being a modest 22 percent of salary, with actual payout level determined by both individual and overall Association performance.

Senior officers participate in plans, depending upon their original date of employment.

A defined benefit plan is provided those officers employed prior to January 1, 2003. Benefits are determined based on years of service times highest consecutive thirty-six month average salary times 2 percent. Full benefit payments are payable upon retirement at age 65, or at age 62 with 10 years of service. Additionally, unreduced benefits are payable based on the “rule of 85”, provided the officer is at least 55 years of age and his/her age plus years of service total at least 85.

Senior officers employed on or after January 1, 2003 receive a nonelective employer contribution of 3 percent of total compensation into the 401(k) savings plan. Additionally, any balances accrued under the defined contribution plan (Cash Balance Plan) were disbursed to plan participants in March 2017 according to his/her individual distribution election. See *Note 9- Employee Benefit Plans*.

The Association sponsors a non-qualified, defined-benefit, supplemental executive retirement plan for the former CEO and the current CEO. The purpose of the non-qualified plan is to provide benefits that supplement the IRS limitations imposed on the qualified defined-benefit plan in which the Association’s employees participate. For eligible key employees, compensation in excess of the 401(a) (17) limit and benefits in excess of the 415(b) limit in the qualified defined-benefit plan will be made up through the non-qualified plan. 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.

This plan does not expand total compensation or the Association’s expenses, but serves only to make the employee “whole” considering IRS payment limitations on the qualified retirement plan.

The total accumulated pension benefits for the CEO and all senior officers as a group as of December 31, 2021, are as follows:

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:					
Paul B. Franklin, Sr.	2021	AgFirst Retirement Plan	32	\$ 3,125,553	\$ –
				<u>\$ 3,125,553</u>	<u>\$ –</u>
Senior Officers and Highly Compensated Employees:					
6 employees, excluding the CEO	2021	AgFirst Retirement Plan	24*	\$ 7,096,005	\$ 40,955
				<u>\$ 7,096,005</u>	<u>\$ 40,955</u>

*Represents the average years of credited service for the group

Senior officers may also participate in a 401(k) savings plan, with the level of Association matching contributions determined by date of employment. For officers employed before January 1, 2003, the Association matches employee contributions 50 percent up to 6 percent of salary. For those hired after December 31, 2002, the Association matches employee contributions 100 percent up to 6 percent of salary.

Various investment options are available for these funds, and vesting is immediate.

Market-based retirement and tax advantaged savings plans for senior officers are critical components to a competitive overall compensation plan. Such a plan is necessary for the attraction and retention of professionals capable of effectively

implementing the Association's strategic and annual business plans. Association financial risk is mitigated by adjusting provisions when necessary to control costs and remain competitive, such as was done for employees hired after December 31, 2002, and subsequent changes to the defined contribution retirement plan and 401(k) savings plan.

Senior officers participate in various other benefits which are also offered to all employees, such as: medical insurance; annual, holiday and sick leave; life and disability insurance; and, milestone service awards. Additionally, senior officers are reimbursed for out-of-pocket business travel, lodging and subsistence costs. A copy of the reimbursement policy is available upon request.

While the Association had record income in 2021, a significant portion of the earnings were from special distributions from AgFirst and not included in core earnings. Virtually all business plan objectives and goals were met or exceeded and the profit sharing component of the incentive plan triggered a payout at the top of the range. The individual and team performance of the CEO and other senior officers were consistent with the level of the incentive payments and with their overall compensation.

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
A. Kevin Monahan <i>Board Chair</i>	2011	2023	\$11,550
Jennifer U. Cuthbertson <i>Vice Chair of the Board</i>	2007	2025	13,200
John E. Bickford* <i>Appointed Stockholder Director</i>	2014	2022	9,450
R. Bertsch Cox <i>Appointed Director</i>	2017	2025	11,550
Clarke E. Fox	1997	2025	15,600
Jeffrey W. Griffith	2014	2024	9,150
William T. Henley IV	2020	2024	7,950
Hugh S. Jones	2003	2025	12,750
Robert M. Jones	2013	2025	10,200
L. Wayne Kirby	2005	2024	9,450
Frankie R. Large	2017	2023	15,150
John N. Mills, Jr.	1996	2023	10,950
Paul W. Rogers, Jr.	1988	2022	14,250
Steven H. Walter	2018	2022	9,150
Robert R. Womack	2014	2022	6,150
			<u>\$166,500</u>

* John E. Bickford also previously served from 2005-2013.

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.

Mr. A. Kevin Monahan, Chair of the Board and Chair of the Compensation, Credit Review, and Executive Committees, is a row crop, beef cattle, and timber farmer. He is owner of Monahan Farms, LLC, Bowling Green Farms, LLC, and partner in Springhill Farms Partnership. Mr. Monahan also serves on the board of the Surry County, Virginia, Planning Commission (county planning), and the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education).

Mrs. Jennifer U. Cuthbertson, Vice Chair of the Board and Chair of the Governance Committee, is a watermelon, pumpkin, goat, cattle, wheat, corn, soybean, timber, and hay farmer, and a tax advisor for H&R Block. Mrs. Cuthbertson was a business analyst for Southern States Cooperative (agricultural supply cooperative) until May 2009 and serves as a seasonal customer

service representative for FERIDIES (retail sales and promotion of Virginia peanuts). She works part-time as a Southampton County 4-H assistant.

Mr. John E. Bickford is a consulting forester involved in timber management, timber sales, and timber evaluations for non-industrial landowners. He owns Bickford Timber and Land Management, Inc., a timber consulting and management business. He also serves as a licensed real estate agent for Cox & Company Real Estate and Insurance and sits on the board of Bickford Family Lands, LLC. He is a member of the Buckingham County Planning Commission.

Mr. R. Bertsch Cox, Chair of the Audit Committee, is the Chief Financial Officer/CPA and shareholder for James River Equipment (equipment dealer). He serves on the board of Virginia Foundation for Agriculture in the Classroom (provides youth agriculture education) and as a member of the Farm Credit System Audit Committee through 2021.

Mr. Clarke E. Fox, serves as president of Foxhill Farms, Inc., a peanut, cotton, corn, soybean, watermelon, and timber farm. He is also partner in Southampton Office Building.

Mr. Jeffrey W. Griffith is a grain, hay, and vegetable farmer. He serves as a director of the Anne Arundel County Farm Bureau (agriculture insurance, service, and lobbying organization); and is a member of Future Farmers of America Alumni (promoting FFA).

Mr. William T. Henley, IV, is a full-time corn, wheat, soybeans, barley, and food grade soybean farmer and partner in MTG Partners, LLC. He is also a partner in Poorhouse Property, LLC, which owns farm and timberland. He is a board member and vice president of the King and Queen County Farm Bureau and vice chair of Virginia Grain Producers.

Mr. Hugh S. Jones is president, majority owner, and operator of Richlands Dairy Farm, Inc. and a shareholder in Richlands Creamery, LLC. Mr. Jones also serves as a director and member of the steering committee of the Virginia Tech Southern Virginia Research Station (agricultural research) and as a director of the Nottoway Planning Commission (county planning).

Mr. Robert M. Jones is the owner of Poor House Dairy Farm. Mr. Jones also serves as a director of Farmers' Cooperative (agricultural production products), a director of Cooperative Milk Producers (milk marketing), a board member of Prince Edward County Board of Supervisors, and a board member of Prince Edward County Planning Commission.

Mr. L. Wayne Kirby is a row crop and hay farmer and owner of Creamfield Farm, LLC, and a commissioned agent for Helena Chemical Company (agricultural chemical sales and consultation). Mr. Kirby serves as a director of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education), the Virginia Grain Producers Association, Inc. (promotion and marketing of grain), and the Virginia Agribusiness Council (industry lobbying organization), and serves on the Virginia Board of Agriculture and Consumer Services (promotes Virginia agriculture interests).

Mr. Frankie R. Large is an owner/operator of Cherry Hill Farm (cow/calf operation) and a contract hog grower for Smithfield Foods. He serves as vice-president of Buckingham County Farm Bureau (agriculture insurance, service, and lobbying organization), and as a member of USDA Farm Service Agency County committee (liaison between the farm community and the U.S. Department of Agriculture).

Mr. John N. Mills, Jr., is a partner in John N. Mills & Sons family farm business (growing and marketing corn, wheat, barley, soybean, and beef cattle). He serves as a director of the Virginia Identity Preserved Grains (small grain promotion and marketing) and the King William County Farm Bureau (agriculture insurance, service, and lobbying organization). He is also a partner in H&F LLC, which is a partner in York River Mitigation Bank (wetlands mitigation development).

Mr. Paul W. Rogers, Jr., is a partner of Rogers Farms Partnership, a cotton, grain, timber, and peanut farm and owner of Paul W. Rogers, Jr., LLC.

Mr. Steven H. Walter is an owner/operator of H&S Farms LLC, a soybean, wheat, and, barley farm and president of Walter Greenhouses, Inc. (vegetables and greenhouse plants). He is also a seasonal worker for Suburban Propane (delivers propane). He serves as president and director of Charles County Farm Bureau (agriculture insurance, service, and lobbying organization), director of Maryland Farm Bureau Political Action Committee, director of the Maryland Soybean Board (promoting soybean use), Maryland Farm Bureau representative on Southern Maryland Ag Development Commission, and member of the Charles County Extension Advisory Committee.

Mr. Robert R. Womack is owner and operator of Woodville Farm, Inc., a poultry, beef cattle, and row crop farm, and co-owner of Robert & John, LLC. He is vice president of Buckingham Cattleman Association (breed promotion and marketing) and a director of Farmers' Cooperative (agricultural production products).

In accordance with board policy, the Association pays directors honoraria ranging from \$200 to \$750, for attendance at meetings, committee meetings, conference call meetings, or special assignments. Directors are paid a monthly retainer fee of \$200, except for the chair of the board who receives \$375 and the chair of the Audit, Legislative, and Governance committees who receive \$225. Total compensation paid to directors as a group was \$166,500 for 2021. No director received more than \$5,000 in non-cash compensation during the year.

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

Name of Director	Days Served		Committees*	Committee Compensation (\$)
	Regular Board Meetings	Committee Meetings		
A. Kevin Monahan <i>Board Chair</i>	6	1 4	Compensation Other Activities	\$750 \$1,800
Jennifer U. Cuthbertson <i>Vice Chair of the Board</i>	6	4 1 2 5	Audit Compensation Governance Other Activities	\$3,000 \$750 \$1,500 \$750
John E Bickford <i>Appointed Stockholder Director</i>	6	1 2 4	Compensation Governance Other Activities	\$750 \$1,500 \$300
R. Bertsch Cox <i>Appointed Director</i>	5	4 1 6	Audit Compensation Other Activities	\$3,000 \$750 \$1,350
Clarke E. Fox	6	4 1 10	Audit Compensation Other Activities	\$3,000 \$750 \$4,950
Jeffery W. Griffith	6	2 3	Governance Other Activities	\$1,500 \$750
William T. Henley, IV	6	3	Other Activities	\$1,050
Hugh S. Jones	6	4 2 10	Audit Governance Other Activities	\$3,000 \$1,500 \$1,350
Robert M. Jones	5	4 5	Audit Other Activities	\$3,000 \$1,050
L. Wayne Kirby	6	2 6	Governance Other Activities	\$1,500 \$1,050
Frankie R. Large	6	4 1 2 11	Audit Compensation Governance Other Activities	\$3,000 \$750 \$1,500 \$2,700
John N. Mills, Jr.	6	4 6	Audit Other Activities	\$3,000 \$1,050
Paul W. Rogers, Jr.	6	4 1 2 9	Audit Compensation Governance Other Activities	\$3,000 \$750 \$1,500 \$2,100
Steven H. Walter	6	2 4	Governance Other Activities	\$1,500 \$750
Robert R. Womack	5	--	Other Activities	\$ --

*Some committee meetings may be scheduled on the same day as other meetings, resulting in no additional compensation

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, 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 \$21,740 for 2021, \$25,112 for 2020, and \$69,443 for 2019.

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.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2021 or in aggregate, between the Association and senior officers or directors, their

immediate family members or any organizations with which they are affiliated, which exceed \$5,000. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2021.

Involvement in Certain Legal Proceedings

There were no other 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	\$ 73
Total	\$ 73

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 (804) 746-4581, writing Diane Fowlkes, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, www.colonialfarmcredit.com. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website at www.agfirst.com. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report, which is available on the Bank's 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 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 Colonial Farm Credit, 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 Colonial Farm Credit, 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:

/s/ R. Bertsch Cox
Chair of the Audit Committee

Members of Audit Committee

Jennifer U. Cuthbertson
Clarke E. Fox
Hugh S. Jones
Robert M. Jones
Frankie R. Large
John N. Mills, Jr.
Paul W. Rogers, Jr.

March 10, 2022



Report of Independent Auditors

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2021, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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



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	\$ 44	\$ 157	\$ 550
Loans	751,079	722,734	677,201
Allowance for loan losses	(2,625)	(2,596)	(2,365)
Net loans	748,454	720,138	674,836
Loans held for sale	388	—	310
Accrued interest receivable	4,936	5,461	5,824
Equity investments in other Farm Credit institutions	6,151	6,616	7,066
Premises and equipment, net	1,835	1,859	1,935
Other property owned	—	—	535
Accounts receivable	11,381	9,865	6,513
Other assets	1,177	1,140	1,173
Total assets	\$ 774,366	\$ 745,236	\$ 698,742
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 556,606	\$ 529,440	\$ 489,386
Accrued interest payable	1,187	1,179	1,362
Patronage refunds payable	18,714	18,057	14,574
Accounts payable	974	1,230	547
Other liabilities	3,576	4,581	4,531
Total liabilities	581,057	554,487	510,400
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	5,699	5,520	5,238
Unallocated retained earnings	187,951	185,679	183,461
Accumulated other comprehensive income (loss)	(341)	(450)	(357)
Total members' equity	193,309	190,749	188,342
Total liabilities and members' equity	\$ 774,366	\$ 745,236	\$ 698,742

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	\$ 35,944	\$ 36,468	\$ 37,858
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	13,699	14,576	16,556
Net interest income	22,245	21,892	21,302
Provision for (reversal of allowance for) loan losses	(7)	234	6
Net interest income after provision for (reversal of allowance for) loan losses	22,252	21,658	21,296
Noninterest Income			
Loan fees	780	469	531
Fees for financially related services	51	54	67
Lease income	158	142	134
Patronage refunds from other Farm Credit institutions	11,241	9,701	6,386
Gains (losses) on sales of rural home loans, net	548	681	686
Gains (losses) on sales of premises and equipment, net	(1)	39	51
Gains (losses) on other transactions	93	25	72
Insurance Fund refunds	—	121	130
Other noninterest income	76	75	68
Total noninterest income	12,946	11,307	8,125
Noninterest Expense			
Salaries and employee benefits	10,578	9,480	9,219
Occupancy and equipment	522	564	599
Insurance Fund premiums	836	475	425
(Gains) losses on other property owned, net	—	(32)	4
Other operating expenses	2,497	2,343	2,478
Total noninterest expense	14,433	12,830	12,725
Income before income taxes	20,765	20,135	16,696
Provision for income taxes	25	3	8
Net income	\$ 20,740	\$ 20,132	\$ 16,688
Other comprehensive income net of tax			
Employee benefit plans adjustments	109	(93)	(349)
Comprehensive income	\$ 20,849	\$ 20,039	\$ 16,339

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

Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2018	\$ 5,047	\$ 181,684	\$ (8)	\$ 186,723
Cumulative effect of change in accounting principle		(9)		(9)
Comprehensive income		16,688	(349)	16,339
Capital stock/participation certificates issued/(retired), net	191			191
Patronage distribution Cash		(14,902)		(14,902)
Balance at December 31, 2019	\$ 5,238	\$ 183,461	\$ (357)	\$ 188,342
Comprehensive income		20,132	(93)	20,039
Capital stock/participation certificates issued/(retired), net	282			282
Patronage distribution Cash		(17,914)		(17,914)
Balance at December 31, 2020	\$ 5,520	\$ 185,679	\$ (450)	\$ 190,749
Comprehensive income		20,740	109	20,849
Capital stock/participation certificates issued/(retired), net	179			179
Patronage distribution Cash		(18,466)		(18,466)
Patronage distribution adjustment		(2)		(2)
Balance at December 31, 2021	\$ 5,699	\$ 187,951	\$ (341)	\$ 193,309

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	\$ 20,740	\$ 20,132	\$ 16,688
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	265	269	284
Amortization (accretion) of net deferred loan costs (fees)	334	287	429
Provision for (reversal of allowance for) loan losses	(7)	234	6
(Gains) losses on other property owned	—	(52)	(13)
(Gains) losses on sales of premises and equipment, net	1	(39)	(51)
(Gains) losses on sales of rural home loans, net	(548)	(681)	(686)
(Gains) losses on other transactions	(93)	(25)	(72)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(35,301)	(43,609)	(43,468)
Proceeds from sales of loans held for sale, net	35,461	44,600	45,160
(Increase) decrease in accrued interest receivable	525	363	161
(Increase) decrease in accounts receivable	(1,516)	(3,352)	932
(Increase) decrease in other assets	(37)	33	(224)
Increase (decrease) in accrued interest payable	8	(183)	(37)
Increase (decrease) in accounts payable	(256)	683	(1,489)
Increase (decrease) in other liabilities	(803)	(18)	2,201
Total adjustments	(1,967)	(1,490)	3,133
Net cash provided by (used in) operating activities	18,773	18,642	19,821
Cash flows from investing activities:			
Net (increase) decrease in loans	(28,643)	(45,288)	(7,782)
(Increase) decrease in equity investments in other Farm Credit institutions	465	450	(257)
Purchases of premises and equipment	(242)	(199)	(341)
Proceeds from sales of premises and equipment	—	45	54
Proceeds from sales of other property owned	—	52	50
Net cash provided by (used in) investing activities	(28,420)	(44,940)	(8,276)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	27,166	40,054	5,283
Capital stock and participation certificates issued/(retired), net	179	282	191
Patronage refunds and dividends paid	(17,811)	(14,431)	(16,535)
Net cash provided by (used in) financing activities	9,534	25,905	(11,061)
Net increase (decrease) in cash	(113)	(393)	484
Cash, beginning of period	157	550	66
Cash, end of period	\$ 44	\$ 157	\$ 550
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ —	\$ 535	\$ —
Receipt of property in settlement of loans	—	—	535
Estimated cash dividends or patronage distributions declared or payable	18,466	17,914	14,902
Employee benefit plans adjustments (Note 9)	(109)	93	349
Supplemental information:			
Interest paid	\$ 13,691	\$ 14,759	\$ 16,593
Taxes (refunded) paid, net	95	8	14

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:** Colonial Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Amelia, Amherst, Appomattox, Brunswick, Buckingham, Campbell, Caroline, Charles City, Charlotte, Chesterfield, Cumberland, Dinwiddie, Essex, Fluvanna, Gloucester, Goochland, Greensville, Hanover, Henrico, Isle of Wight, King and Queen, King George, King William, James City, Lancaster, Louisa, Lunenburg, Mathews, Mecklenburg, Middlesex, New Kent, Northumberland, Nottoway, Powhatan, Prince Edward, Prince George, Richmond, Southampton, Surry, Sussex, Westmoreland, York, and the cities of Chesapeake, Newport News, Suffolk and Virginia Beach in the state of Virginia and the counties of Anne Arundel, Calvert, Charles, Prince George's and Saint Mary's in the state of Maryland.

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

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

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the

associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and

support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

- A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.
- B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

an adjustment to interest income using the effective interest method.

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

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

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

In cases where the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable incurred 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 incurred loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

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

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

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

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

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

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard

viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of Comprehensive Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

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

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

Equity Investments in Other Farm Credit System Institutions

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

Other Investments

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

and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheet.

Investment Income

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

G. Voluntary Advance Conditional Payments: The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted; the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

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

Defined Contribution Plans

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

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

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans

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

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

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

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

Single Employer Defined Benefit Plan

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

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

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

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

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

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

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

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

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

Additional information may be found in Note 8.

- L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

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

Financial Instruments

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

Contracts with Customers

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

Gains and Losses from Nonfinancial Assets

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

nonrefundable, a gain or loss may be recognized at that time.

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

Lessee

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

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

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

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

Lessor

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

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

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

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

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

In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

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

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

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

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

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance and amendments issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date through the life of the financial instrument. Financial institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

Note 3 — Loans and Allowance for Loan Losses

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

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding

loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.

- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.

A summary of loans outstanding at period end follows:

	December 31,		
	2021	2020	2019
Real estate mortgage	\$ 514,107	\$ 478,540	\$ 435,210
Production and intermediate-term	159,690	164,816	171,757
Loans to cooperatives	4,822	4,636	4,278
Processing and marketing	19,761	20,120	18,672
Farm-related business	4,521	5,030	5,730
Communication	211	—	578
Power and water/waste disposal	290	720	2,215
Rural residential real estate	44,371	45,565	35,455
International	3,306	3,307	3,306
Total loans	\$ 751,079	\$ 722,734	\$ 677,201

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	\$ 8,889	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,889	\$ —
Production and intermediate-term	14,526	277	4,789	—	—	—	19,315	277
Loans to cooperatives	3,851	—	982	—	—	—	4,833	—
Processing and marketing	14,904	—	2,707	—	—	—	17,611	—
Farm-related business	321	—	—	—	—	—	321	—
Communication	215	—	—	—	—	—	215	—
Power and water/waste disposal	296	—	—	—	—	—	296	—
International	3,311	—	—	—	—	—	3,311	—
Total	\$ 46,313	\$ 277	\$ 8,478	\$ —	\$ —	\$ —	\$ 54,791	\$ 277

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	\$ 8,567	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,567	\$ —
Production and intermediate-term	13,272	773	3,620	—	—	—	16,892	773
Loans to cooperatives	3,791	—	852	—	—	—	4,643	—
Processing and marketing	14,928	41	2,473	—	—	—	17,401	41
Farm-related business	321	72	—	—	—	—	321	72
Power and water/waste disposal	727	—	—	—	—	—	727	—
International	3,311	—	—	—	—	—	3,311	—
Total	\$ 44,917	\$ 886	\$ 6,945	\$ —	\$ —	\$ —	\$ 51,862	\$ 886

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	\$ 9,546	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,546	\$ —
Production and intermediate-term	14,685	—	4,056	—	—	—	18,741	—
Loans to cooperatives	3,527	—	764	—	—	—	4,291	—
Processing and marketing	12,939	—	2,500	—	—	—	15,439	—
Farm-related business	321	—	—	—	—	—	321	—
Communication	579	—	—	—	—	—	579	—
Power and water/waste disposal	2,236	—	—	—	—	—	2,236	—
International	3,311	—	—	—	—	—	3,311	—
Total	\$ 47,144	\$ —	\$ 7,320	\$ —	\$ —	\$ —	\$ 54,464	\$ —

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

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

	December 31,					December 31,		
	2021	2020	2019			2021	2020	2019
Real estate mortgage:				Communication:				
Acceptable	98.13%	97.58%	97.00%	Acceptable		100.00%	100.00%	100.00%
OAEM	1.31	1.56	1.87	OAEM		—	—	—
Substandard/doubtful/loss	0.56	0.86	1.13	Substandard/doubtful/loss		—	—	—
	100.00%	100.00%	100.00%			100.00%	100.00%	100.00%
Production and intermediate-term:				Power and water/waste disposal:				
Acceptable	96.59%	96.84%	97.25%	Acceptable		100.00%	100.00%	14.50%
OAEM	3.05	2.88	2.41	OAEM		—	—	85.50
Substandard/doubtful/loss	0.36	0.28	0.34	Substandard/doubtful/loss		—	—	—
	100.00%	100.00%	100.00%			100.00%	100.00%	100.00%
Loans to cooperatives:				Rural residential real estate:				
Acceptable	100.00%	100.00%	100.00%	Acceptable		99.02%	98.81%	98.19%
OAEM	—	—	—	OAEM		0.59	0.71	0.95
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss		0.39	0.48	0.86
	100.00%	100.00%	100.00%			100.00%	100.00%	100.00%
Processing and marketing:				International:				
Acceptable	100.00%	99.78%	99.71%	Acceptable		100.00%	100.00%	100.00%
OAEM	—	—	—	OAEM		—	—	—
Substandard/doubtful/loss	—	0.22	0.29	Substandard/doubtful/loss		—	—	—
	100.00%	100.00%	100.00%			100.00%	100.00%	100.00%
Farm-related business:				Total loans:				
Acceptable	100.00%	98.85%	97.62%	Acceptable		97.94%	97.59%	96.97%
OAEM	—	1.15	2.38	OAEM		1.58	1.74	2.16
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss		0.48	0.67	0.87
	100.00%	100.00%	100.00%			100.00%	100.00%	100.00%

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

	December 31, 2021					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	
Real estate mortgage	\$ 3,800	\$ 299	\$ 4,099	\$ 513,300	\$ 517,399	
Production and intermediate-term	817	45	862	160,236	161,098	
Loans to cooperatives	—	—	—	4,824	4,824	
Processing and marketing	—	—	—	19,781	19,781	
Farm-related business	—	—	—	4,542	4,542	
Communication	—	—	—	211	211	
Power and water/waste disposal	—	—	—	290	290	
Rural residential real estate	—	—	—	44,556	44,556	
International	—	—	—	3,314	3,314	
Total	\$ 4,617	\$ 344	\$ 4,961	\$ 751,054	\$ 756,015	

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	\$ 3,353	\$ 432	\$ 3,785	\$ 478,208	\$ 481,993
Production and intermediate-term	2,938	159	3,097	163,486	166,583
Loans to cooperatives	—	—	—	4,637	4,637
Processing and marketing	—	—	—	20,147	20,147
Farm-related business	—	—	—	5,046	5,046
Power and water/waste disposal	—	—	—	721	721
Rural residential real estate	323	—	323	45,430	45,753
International	—	—	—	3,315	3,315
Total	\$ 6,614	\$ 591	\$ 7,205	\$ 720,990	\$ 728,195

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	\$ 4,331	\$ 187	\$ 4,518	\$ 434,143	\$ 438,661
Production and intermediate-term	1,916	151	2,067	171,786	173,853
Loans to cooperatives	—	—	—	4,290	4,290
Processing and marketing	—	—	—	18,720	18,720
Farm-related business	14	—	14	5,746	5,760
Communication	—	—	—	578	578
Power and water/waste disposal	—	—	—	2,217	2,217
Rural residential real estate	29	55	84	35,540	35,624
International	—	—	—	3,322	3,322
Total	\$ 6,290	\$ 393	\$ 6,683	\$ 676,342	\$ 683,025

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

	December 31,		
	2021	2020	2019
Nonaccrual loans:			
Real estate mortgage	\$ 603	\$ 698	\$ 1,799
Production and intermediate-term	344	236	320
Processing and marketing	—	46	54
Rural residential real estate	85	142	171
Total	\$ 1,032	\$ 1,122	\$ 2,344
Accruing restructured loans:			
Real estate mortgage	\$ 332	\$ 366	\$ 401
Production and intermediate-term	—	—	4
Rural residential real estate	15	25	38
Total	\$ 347	\$ 391	\$ 443
Accruing loans 90 days or more past due:			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 1,379	\$ 1,513	\$ 2,787
Other property owned	—	—	535
Total nonperforming assets	\$ 1,379	\$ 1,513	\$ 3,322
Nonaccrual loans as a percentage of total loans	0.14%	0.16%	0.35%
Nonperforming assets as a percentage of total loans and other property owned	0.18%	0.21%	0.49%
Nonperforming assets as a percentage of capital	0.71%	0.79%	1.76%

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

	December 31,		
	2021	2020	2019
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 689	\$ 431	\$ 1,636
Past due	343	691	708
Total	\$ 1,032	\$ 1,122	\$ 2,344
Impaired accrual loans:			
Restructured	\$ 347	\$ 391	\$ 443
90 days or more past due	—	—	—
Total	\$ 347	\$ 391	\$ 443
Total impaired loans	\$ 1,379	\$ 1,513	\$ 2,787
Additional commitments to lend	\$ —	\$ —	\$ —

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

	December 31, 2021			Year Ended December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired loans:						
With a related allowance for credit losses:						
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	—
Production and intermediate-term	10	28	19	10		3
Rural residential real estate	—	—	—	—		—
Total	\$ 10	\$ 28	\$ 19	\$ 10		3
With no related allowance for credit losses:						
Real estate mortgage	\$ 935	\$ 1,195	\$ —	\$ 1,007	\$ —	276
Production and intermediate-term	334	853	—	359		98
Rural residential real estate	100	167	—	108	\$ —	29
Total	\$ 1,369	\$ 2,215	\$ —	\$ 1,474		403
Total impaired loans:						
Real estate mortgage	\$ 935	\$ 1,195	\$ —	\$ 1,007	\$ —	276
Production and intermediate-term	344	881	19	369		101
Rural residential real estate	100	167	—	108	\$ —	29
Total	\$ 1,379	\$ 2,243	\$ 19	\$ 1,484		406

	December 31, 2020			Year Ended December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired loans:						
With a related allowance for credit losses:						
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	—
Production and intermediate-term	163	261	38	226		50
Processing and marketing	—	—	—	—		—
Rural residential real estate	—	—	—	—		—
Total	\$ 163	\$ 261	\$ 38	\$ 226		50
With no related allowance for credit losses:						
Real estate mortgage	\$ 1,064	\$ 1,558	\$ —	\$ 1,480	\$ —	327
Production and intermediate-term	73	813	—	103		22
Processing and marketing	46	64	—	64		14
Rural residential real estate	167	274	—	232		51
Total	\$ 1,350	\$ 2,709	\$ —	\$ 1,879		414
Total impaired loans:						
Real estate mortgage	\$ 1,064	\$ 1,558	\$ —	\$ 1,480	\$ —	327
Production and intermediate-term	236	1,074	38	329		72
Processing and marketing	46	64	—	64		14
Rural residential real estate	167	274	—	232		51
Total	\$ 1,513	\$ 2,970	\$ 38	\$ 2,105		464

	December 31, 2019			Year Ended December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
Impaired loans:						
With a related allowance for credit losses:						
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —	—
Production and intermediate-term	210	297	47	261		15
Processing and marketing	—	—	—	—		—
Rural residential real estate	—	—	—	—		—
Total	\$ 210	\$ 297	\$ 47	\$ 261	\$	15
With no related allowance for credit losses:						
Real estate mortgage	\$ 2,200	\$ 3,082	\$ —	\$ 2,738	\$	159
Production and intermediate-term	114	831	—	143		9
Processing and marketing	54	68	—	67		4
Rural residential real estate	209	317	—	260		15
Total	\$ 2,577	\$ 4,298	\$ —	\$ 3,208	\$	187
Total impaired loans:						
Real estate mortgage	\$ 2,200	\$ 3,082	\$ —	\$ 2,738	\$	159
Production and intermediate-term	324	1,128	47	404		24
Processing and marketing	54	68	—	67		4
Rural residential real estate	209	317	—	260		15
Total	\$ 2,787	\$ 4,595	\$ 47	\$ 3,469	\$	202

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2020	\$ 1,693	\$ 623	\$ 105	\$ —	\$ 2	\$ 161	\$ 12	\$ 2,596
Charge-offs	—	(29)	—	—	—	—	—	(29)
Recoveries	19	46	—	—	—	—	—	65
Provision for loan losses	71	(66)	(4)	1	(1)	(7)	(1)	(7)
Balance at December 31, 2021	\$ 1,783	\$ 574	\$ 101	\$ 1	\$ 1	\$ 154	\$ 11	\$ 2,625
Balance at December 31, 2019	\$ 1,488	\$ 637	\$ 98	\$ 2	\$ 8	\$ 121	\$ 11	\$ 2,365
Charge-offs	(1)	(58)	—	—	—	—	—	(59)
Recoveries	31	25	—	—	—	—	—	56
Provision for loan losses	175	19	7	(2)	(6)	40	1	234
Balance at December 31, 2020	\$ 1,693	\$ 623	\$ 105	\$ —	\$ 2	\$ 161	\$ 12	\$ 2,596
Balance at December 31, 2018	\$ 1,371	\$ 633	\$ 104	\$ 2	\$ 8	\$ 117	\$ 10	\$ 2,245
Charge-offs	(6)	(27)	—	—	—	—	—	(33)
Recoveries	26	94	—	—	—	27	—	147
Provision for loan losses	97	(63)	(6)	—	—	(23)	1	6
Balance at December 31, 2019	\$ 1,488	\$ 637	\$ 98	\$ 2	\$ 8	\$ 121	\$ 11	\$ 2,365
Allowance on loans evaluated for impairment:								
Individually	\$ —	\$ 19	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 19
Collectively	1,783	555	101	1	1	154	11	2,606
Balance at December 31, 2021	\$ 1,783	\$ 574	\$ 101	\$ 1	\$ 1	\$ 154	\$ 11	\$ 2,625
Individually	\$ —	\$ 38	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 38
Collectively	1,693	585	105	—	2	161	12	2,558
Balance at December 31, 2020	\$ 1,693	\$ 623	\$ 105	\$ —	\$ 2	\$ 161	\$ 12	\$ 2,596
Individually	\$ —	\$ 47	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 47
Collectively	1,488	590	98	2	8	121	11	2,318
Balance at December 31, 2019	\$ 1,488	\$ 637	\$ 98	\$ 2	\$ 8	\$ 121	\$ 11	\$ 2,365
Recorded investment in loans evaluated for impairment:								
Individually	\$ 935	\$ 344	\$ —	\$ —	\$ —	\$ 100	\$ —	\$ 1,379
Collectively	516,464	160,754	29,147	211	290	44,456	3,314	754,636
Balance at December 31, 2021	\$ 517,399	\$ 161,098	\$ 29,147	\$ 211	\$ 290	\$ 44,556	\$ 3,314	\$ 756,015
Individually	\$ 1,064	\$ 236	\$ 46	\$ —	\$ —	\$ 167	\$ —	\$ 1,513
Collectively	480,929	166,347	29,784	—	721	45,586	3,315	726,682
Balance at December 31, 2020	\$ 481,993	\$ 166,583	\$ 29,830	\$ —	\$ 721	\$ 45,753	\$ 3,315	\$ 728,195
Individually	\$ 2,200	\$ 324	\$ 54	\$ —	\$ —	\$ 209	\$ —	\$ 2,787
Collectively	436,461	173,529	28,716	578	2,217	35,415	3,322	680,238
Balance at December 31, 2019	\$ 438,661	\$ 173,853	\$ 28,770	\$ 578	\$ 2,217	\$ 35,624	\$ 3,322	\$ 683,025

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Year Ended December 31, 2021					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 1	\$ —	\$ 1	
Production and intermediate-term	—	210	3	213	
Processing and marketing	—	44	—	44	
Total	\$ —	\$ 255	\$ 3	\$ 258	
Post-modification:					
Real estate mortgage	\$ —	\$ 1	\$ —	\$ 1	\$ —
Production and intermediate-term	—	324	3	327	(94)
Processing and marketing	—	44	—	44	—
Total	\$ —	\$ 369	\$ 3	\$ 372	\$ (94)

Year Ended December 31, 2020					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 133	\$ —	\$ 133	
Production and intermediate-term	—	—	2	2	
Processing and marketing	—	98	—	98	
Total	\$ —	\$ 231	\$ 2	\$ 233	
Post-modification:					
Real estate mortgage	\$ —	\$ 133	\$ —	\$ 133	\$ —
Production and intermediate-term	—	—	3	3	—
Processing and marketing	—	98	—	98	—
Total	\$ —	\$ 231	\$ 3	\$ 234	\$ —

Year Ended December 31, 2019					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ —	\$ 24	\$ —	\$ 24	
Processing and marketing	—	40	—	40	
Processing and marketing	—	55	—	55	
Total	\$ —	\$ 119	\$ —	\$ 119	
Post-modification:					
Real estate mortgage	\$ —	\$ 25	\$ —	\$ 25	\$ —
Processing and marketing	—	123	—	123	(90)
Processing and marketing	—	55	—	55	—
Total	\$ —	\$ 203	\$ —	\$ 203	\$ (90)

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2021	2020	2019	2021	2020	2019
Real estate mortgage	\$ 438	\$ 633	\$ 686	\$ 106	\$ 267	\$ 285
Production and intermediate-term	291	101	162	291	101	158
Processing and marketing	—	46	54	—	46	54
Rural residential real estate	69	87	109	54	62	71
Total loans	\$ 798	\$ 867	\$ 1,011	\$ 451	\$ 476	\$ 568
Additional commitments to lend	\$ —	\$ —	\$ —			

Note 4 — Investments**Equity Investments in Other Farm Credit Institutions**

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$5,695 for 2021, \$6,167 for 2020 and \$6,652 for 2019. The Association owned 2.22 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 \$456 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	\$ 427	\$ 427	\$ 427
Buildings and improvements	2,589	2,575	2,462
Furniture and equipment	2,369	2,300	2,331
	5,385	5,302	5,220
Less: accumulated depreciation	3,550	3,443	3,285
Total	\$ 1,835	\$ 1,859	\$ 1,935

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

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

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable

and fixed rate advances are generally established loan-by-loan, based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA, which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon an agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.43 percent for LIBOR-based loans, 1.40 percent for Secured Overnight Financing Rate (SOFR)-based loans, and 1.55 percent for Prime-based loans, and the weighted average remaining maturities were 3.5 years, 4.5 years, and 0.5 years, respectively, at December 31, 2021. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.77 percent, and the weighted average remaining maturity was 13.2 years at December 31, 2021. The weighted-average interest rate on all interest-bearing notes payable was 2.56 percent and the weighted-average remaining maturity was 11.2 years at December 31, 2021. Gross notes payable consists of approximately 16.58 percent variable rate and 83.42 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2021. Notes payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The Direct Note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. Capital Stock and Participation Certificates: In

accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class B 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 \$1 thousand or two percent of the loan amount, whichever is less. 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.

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

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

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

		Capital Conservation	Minimum Requirement with Capital	Capital Ratios as of December 31,		
Ratio	Minimum Requirement	Buffer*	Conservation Buffer	2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	24.25%	25.10%	26.62%
Tier 1 Capital	6.0%	2.5%	8.5%	24.25%	25.10%	26.62%
Total Capital	8.0%	2.5%	10.5%	24.61%	25.47%	26.99%
Permanent Capital	7.0%	0.0%	7.0%	24.33%	25.19%	26.71%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	25.97%	26.80%	27.90%
URE and UREE Leverage	1.5%	0.0%	1.5%	25.91%	26.84%	27.94%

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

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

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

- C. Description of Equities:** The Association is authorized to issue or have outstanding Class C Preferred Stock, Classes A, B, and D Common Stock, Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be

necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
C Common/Voting	No	1,003,256	\$ 5,016
Participation Certificates/Nonvoting	No	136,633	683
Total Capital Stock and Participation Certificates		1,139,889	\$ 5,699

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

Retained Earnings

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

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

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

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

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates.

Such dividends may be paid solely on Class C Preferred Stock or on all classes of stock and participation certificates.

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

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

Patronage Distributions

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

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

Transfer

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

Impairment

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

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

Liquidation

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

1. Class C Preferred Stock
2. Classes A, B, and D Common Stock and Participation Certificates
3. Holders of allocated retained earnings pro rata, until an amount equal to the total account has been distributed.

D. Accumulated Other Comprehensive Income (AOCI):

Changes in Accumulated Other Comprehensive income by Component (a)			
For the Year Ended December 31,			
	2021	2020	2019
Employee Benefit Plans:			
Balance at beginning of period	\$ (450)	\$ (357)	\$ (8)
Other comprehensive income before reclassifications	21	(150)	(349)
Amounts reclassified from AOCI	88	57	—
Net current period OCI	109	(93)	(349)
Balance at end of period	\$ (341)	\$ (450)	\$ (357)

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	\$ (88)	\$ (57)	\$ —	See Note 9.
Amounts reclassified	\$ (88)	\$ (57)	\$ —	

(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

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

Level 3

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

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

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

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

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

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

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

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

December 31, 2021					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<u>Recurring Measurements</u>					
Assets:					
Assets held in trust funds	\$ 875	\$ 875	\$ –	\$ –	\$ 875
Recurring Assets	\$ 875	\$ 875	\$ –	\$ –	\$ 875
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
<u>Nonrecurring Measurements</u>					
Assets:					
Impaired loans	\$ –	\$ –	\$ –	\$ –	\$ –
Other property owned	–	–	–	–	–
Nonrecurring Assets	\$ –	\$ –	\$ –	\$ –	\$ –
<u>Other Financial Instruments</u>					
Assets:					
Cash	\$ 44	\$ 44	\$ –	\$ –	\$ 44
Loans	748,842	–	–	749,738	749,738
Other Financial Assets	\$ 748,886	\$ 44	\$ –	\$ 749,738	\$ 749,782
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 556,606	\$ –	\$ –	\$ 555,652	\$ 555,652
Other Financial Liabilities	\$ 556,606	\$ –	\$ –	\$ 555,652	\$ 555,652

		December 31, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	886	\$ 886	\$ –	\$ –	\$ 886
Recurring Assets	\$	886	\$ 886	\$ –	\$ –	\$ 886
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	125	\$ –	\$ –	\$ 125	\$ 125
Other property owned		–	–	–	–	–
Nonrecurring Assets	\$	125	\$ –	\$ –	\$ 125	\$ 125
Other Financial Instruments						
Assets:						
Cash	\$	157	\$ 157	\$ –	\$ –	\$ 157
Loans		720,013	–	–	729,667	729,667
Other Financial Assets	\$	720,170	\$ 157	\$ –	\$ 729,667	\$ 729,824
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	529,440	\$ –	\$ –	\$ 535,957	\$ 535,957
Other Financial Liabilities	\$	529,440	\$ –	\$ –	\$ 535,957	\$ 535,957
		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements						
Assets:						
Assets held in trust funds	\$	922	\$ 922	\$ –	\$ –	\$ 922
Recurring Assets	\$	922	\$ 922	\$ –	\$ –	\$ 922
Liabilities:						
Recurring Liabilities	\$	–	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements						
Assets:						
Impaired loans	\$	163	\$ –	\$ –	\$ 163	\$ 163
Other property owned		535	–	–	571	571
Nonrecurring Assets	\$	698	\$ –	\$ –	\$ 734	\$ 734
Other Financial Instruments						
Assets:						
Cash	\$	550	\$ 550	\$ –	\$ –	\$ 550
Loans		674,983	–	–	677,176	677,176
Other Financial Assets	\$	675,533	\$ 550	\$ –	\$ 677,176	\$ 677,726
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$	489,386	\$ –	\$ –	\$ 490,564	\$ 490,564
Other Financial Liabilities	\$	489,386	\$ –	\$ –	\$ 490,564	\$ 490,564

Uncertainty in Measurements of Fair Value

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

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

opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

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

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk

characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimate.

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	\$ —	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

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

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

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

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

4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were \$2,381 for 2021, \$1,839 for 2020, and \$1,612 for 2019. At December 31, 2021, 2020, and 2019, the total liability balance for the FAP Plan was \$39,135, \$114,449, and \$129,713, respectively. The FAP Plan was 96.17 percent, 89.63 percent, and 87.55 percent funded to the projected benefit obligation as of December 31, 2021, 2020, and 2019, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of

Comprehensive Income were \$203 for 2021, \$188 for 2020, and \$212 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 \$448, \$432, and \$419 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, \$109, \$(93), and \$(349), respectively, have been recognized as a net credit, a net debit, and a net debit 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.

The supplemental retirement plan is unfunded and had a projected benefit obligation of \$963 and a net under-funded status of \$963 at December 31, 2021. Expenses included in noninterest expenses were \$128, \$94, and \$20 for 2021, 2020, and 2019, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2021 included a discount rate of 2.90 percent and a rate of compensation increase of 3.00 percent.

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 \$13,156. During 2021, \$8,069 of new loans were made and repayments totaled \$7,922. In the opinion of management, none

of these loans outstanding at December 31, 2021 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2021, \$138,388 of commitments to extend credit and no commercial letters of credit were outstanding. A related reserve for unfunded commitments of \$239 was included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2021, standby letters of credit outstanding totaled \$544 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 \$544.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ 19	\$ 2	\$ 7
State	6	1	1
	25	3	8
Deferred:			
Federal	—	—	—
State	—	—	—
Total provision (benefit) for income taxes	\$ 25	\$ 3	\$ 8

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	\$ 4,360	\$ 4,228	\$ 3,506
State tax, net	4	2	2
Patronage distributions	(3,878)	(3,762)	(3,041)
Tax-exempt FLCA earnings	(562)	(558)	(431)
Changes in tax law/rates	—	—	—
Change in deferred tax asset valuation allowance	117	122	(33)
Other	(16)	(29)	5
Provision (benefit) for income taxes	\$ 25	\$ 3	\$ 8

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

	December 31,		
	2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	\$ 370	\$ 381	\$ 338
Other property owned writedown	—	—	—
Nonaccrual loan interest	80	116	106
Fixed assets (asset)	—	5	—
NOL Carryforward	201	—	—
Gross deferred tax assets	651	502	444
Less: valuation allowance	(497)	(380)	(258)
Gross deferred tax assets, net of valuation allowance	154	122	186
Deferred income tax liabilities:			
Depreciation	—	—	—
Fixed assets	(12)	—	(56)
Loan origination fees	(142)	(122)	(130)
Gross deferred tax liability	(154)	(122)	(186)
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

At December 31, 2021, deferred income taxes have not been provided by the Association on approximately \$0.9 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$497, \$380, and \$258 as of December 31, 2021, 2020 and 2019, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2021 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2018 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

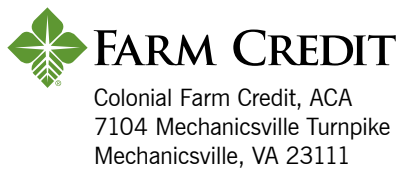
	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,342	\$ 5,367	\$ 5,901	\$ 5,635	\$ 22,245
Provision for (reversal of allowance for) loan losses	(64)	(26)	143	(60)	(7)
Noninterest income (expense), net	(1,763)	(2,148)	(2,114)	4,513	(1,512)
Net income	\$ 3,643	\$ 3,245	\$ 3,644	\$ 10,208	\$ 20,740

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,356	\$ 5,430	\$ 5,445	\$ 5,661	\$ 21,892
Provision for (reversal of allowance for) loan losses	144	(25)	118	(3)	234
Noninterest income (expense), net	(1,826)	(1,790)	(1,727)	3,817	(1,526)
Net income	\$ 3,386	\$ 3,665	\$ 3,600	\$ 9,481	\$ 20,132

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 5,167	\$ 5,275	\$ 5,449	\$ 5,411	\$ 21,302
Provision for (reversal of allowance for) loan losses	(47)	6	125	(78)	6
Noninterest income (expense), net	(1,774)	(1,634)	(1,712)	512	(4,608)
Net income	\$ 3,440	\$ 3,635	\$ 3,612	\$ 6,001	\$ 16,688

Note 14 — Subsequent Events

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



Prsrt Std
U.S. Postage
PAID
Columbia, SC
Permit 1160

