



ANNUAL  
REPORT

2021



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# CENTRAL KENTUCKY AGRICULTURAL CREDIT ASSOCIATION

## *2021 ANNUAL REPORT*

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### **Management**

James W. Caldwell.....	President and Chief Executive Officer
Marcus G. Barnett .....	Vice President and Chief Financial Officer
Jonathan T. Noe .....	Vice President and Chief Lending Officer
Shane Turner .....	Vice President and Chief Risk Officer

### **Board of Directors**

James Alvin Lyons.....	Chairman
James C. Rankin III.....	Vice Chairman
Patrick Higginbotham .....	Director
Joe Myers .....	Director
Lee Hood.....	Director
Mary-Lynn Hinkel .....	Director
Dan Grigson .....	Director

# *Message from the President*

## **Records Broken and a Broken Record**

As you review the 2021 Annual Report, you will quickly see that we had strong performance throughout the year. In many respects, 2021 was a special year as we experienced solid growth and earnings that reached previously uncharted territory – results that broke the previous record.

The quote “Records are made to be broken” is often attributed to legendary basketball coach, Red Auerbach. There’s a lot of truth to that saying. We see it most often in the sports arena, where team and player statistics rule the day. If you are a runner, biker or swimmer, you probably keep some type of record and may have a “personal best” time. But records are made and broken in all aspects of our life. We also see records kept and challenged at the farm level with measurements ranging from bushels per acre for grain farmers to weaning and yearling weights for cattlemen.

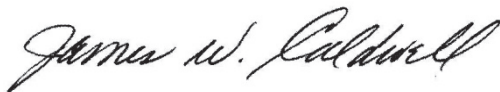
In chronicling the results of Central Kentucky Ag Credit over the past several years, we see several accomplishments, records and “personal bests.” The results you will find in the 2021 Annual Report are no different and reflect new levels of achievement for the Association – several records surpassed. Our growth in areas such as loan volume and asset levels continued along the lines of the prior years’ growth trajectory, so new high levels in both areas were achieved again this past year. But the most notable record to be broken in 2021 was earnings and the corresponding ratios. In measurements like return on equity and patronage distribution, 2021 was truly a record breaking year.

One of the more entertaining aspects of memorializing the Association’s performance has been trying to come up with ways to describe it. This trend seems to have started in earnest around 2013 when I characterized our performance as a time when we hit several “high water marks.” This started a run of consecutive years where we regularly surpassed the prior year and I continually told the board and stockholders something along the lines of: “we cannot keep up this pace” or “eventually these trends will level-out” – only to be followed by another year of continued upward trends. It got to the point where the board and staff accused me of simply recycling the prior year’s annual meeting speech. In essence, they said I was “sounding like a broken record.” (*Here, I pause and ask those under a certain age to ask their parents or grandparents about the meaning of the phrase “sounding like a broken record.”*) In reality, it has been a good problem to have. Seeing consistent results from the Association has built confidence among our membership and within our communities. People are confident Ag Credit can deliver innovative, high quality, local service with predictably consistent results.

Since I am retiring on July 1, 2022, this will be my final “Message from the President.” Up until this point, I have written about the tangible, measurable results because it’s easy to spot the numbers. And while I do take a high degree of satisfaction in sharing them – they are just numbers. To me, it’s what’s behind those numbers that counts. So, allow me to once again sound like a broken record: When asked to describe our cooperative organization, I regularly find myself searching for the proper business-speak word or phrase. Despite a search for a better term, I always seem to come back to that one simple word – “unique.” By definition, this means an organization that is unlike anything else in the marketplace – a “one of a kind” institution.

The cultural foundation of our organization makes the difference – makes us unique. This foundation includes a strong local connection with a traditional lending structure that focuses on the relationship between the loan officer and the farmer. Those components show up in the effort of the staff, the dedication of the board, the loyalty of the membership, the coalition formed by the AgFirst District and the overall camaraderie of all these folks.

Bottom-line – it is the people who make this Association unique. And I have been blessed to have had the opportunity to live and work with these amazing people for almost 40 years. I have enjoyed working alongside you as we have tackled challenges and tried to make a difference. I look forward to seeing what’s in store for the future of the Association as it fulfills a mission to serve agriculture and rural communities.



James W. Caldwell  
Chief Executive Officer  
March 10, 2022

## Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Central Kentucky Agricultural Credit Association (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.

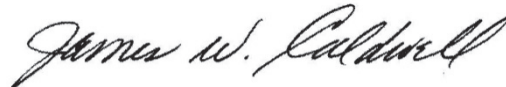
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the 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.

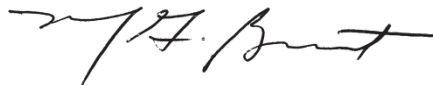
The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2021 Annual Report of Central Kentucky Agricultural Credit Association, that the report has been prepared under the oversight 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.



James Alvin Lyons  
Chairman of the Board



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer

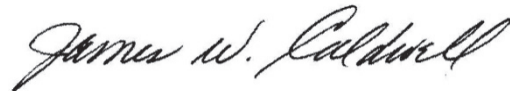
March 10, 2022

## ***Report on Internal Control Over Financial Reporting***

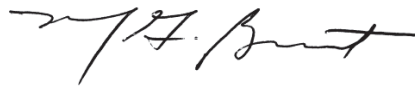
The Association’s principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association’s Consolidated Financial Statements. For purposes of this report, “internal 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.



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
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
<b>Balance Sheet Data</b>					
Cash	\$ 790	\$ 2,009	\$ 2,468	\$ 3,046	\$ 2,028
Loans	644,696	597,624	533,741	513,045	471,730
Allowance for loan losses	(4,476)	(4,637)	(4,257)	(4,277)	(4,037)
Net loans	640,220	592,987	529,484	508,768	467,693
Equity investments in other Farm Credit institutions	6,657	6,873	7,106	7,099	7,117
Other property owned	—	—	—	—	8
Other assets	20,220	19,160	16,606	16,924	16,341
Total assets	\$ 667,887	\$ 621,029	\$ 555,664	\$ 535,837	\$ 493,187
Notes payable to AgFirst Farm Credit Bank*	\$ 537,512	\$ 506,250	\$ 452,919	\$ 441,115	\$ 406,457
Accrued interest payable and other liabilities with maturities of less than one year	10,575	8,642	7,192	6,996	6,695
Total liabilities	548,087	514,892	460,111	448,111	413,152
Capital stock and participation certificates	4,360	4,112	3,910	4,225	4,698
Retained earnings					
Allocated	86,217	74,792	67,498	61,064	54,453
Unallocated	29,223	27,233	24,145	22,437	20,884
Total members' equity	119,800	106,137	95,553	87,726	80,035
Total liabilities and members' equity	\$ 667,887	\$ 621,029	\$ 555,664	\$ 535,837	\$ 493,187
<b>Statement of Income Data</b>					
Net interest income	\$ 15,467	\$ 14,461	\$ 13,257	\$ 12,600	\$ 11,560
Provision for loan losses	—	400	—	500	350
Noninterest income (expense), net	6,228	1,610	(951)	108	(317)
Net income	\$ 21,695	\$ 15,671	\$ 12,306	\$ 12,208	\$ 10,893
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	3.40%	2.69%	2.30%	2.41%	2.36%
Total members' equity	19.08%	15.58%	13.29%	14.41%	14.14%
Net interest income as a percentage of average earning assets					
Net (chargeoffs) recoveries to average loans	(0.026)%	(0.004)%	(0.004)%	(0.053)%	(0.002)%
Total members' equity to total assets	17.94%	17.09%	17.20%	16.37%	16.23%
Debt to members' equity (:1)	4.58	4.85	4.82	5.11	5.16
Allowance for loan losses to loans	0.69%	0.78%	0.80%	0.83%	0.86%
Permanent capital ratio	18.38%	17.46%	18.12%	17.45%	16.91%
Common equity tier 1 capital ratio	18.22%	17.29%	17.92%	17.23%	16.66%
Tier 1 capital ratio	18.22%	17.29%	17.92%	17.23%	16.66%
Total regulatory capital ratio	18.99%	18.11%	18.80%	18.12%	17.54%
Tier 1 leverage ratio	16.74%	15.72%	15.99%	15.08%	14.63%
Unallocated retained earnings (URE) and URE equivalents leverage ratio	16.31%	15.36%	15.62%	14.73%	14.29%
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 7,737	\$ 5,285	\$ 4,161	\$ 4,040	\$ 3,590
Nonqualified retained earnings	10,684	7,298	6,242	6,591	6,112

\* 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 Central Kentucky Agricultural Credit Association (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 Kentucky. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and Unaudited Quarterly reports are also available upon request free of charge on the Association's website, [www.agcreditonline.com](http://www.agcreditonline.com), or by calling 1-859-253-3249, extension 607, or writing Marcus G. Barnett, Central Kentucky Agricultural Credit Association, P. O. Box

1290, Lexington, KY 40588-1290. 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.

## 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 according to generally accepted accounting principles and is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including current production and economic conditions, loan portfolio composition, collateral value, portfolio quality and prior loan loss experience.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly

different results, which could have material positive or negative effects on the Association's results of operations.

## ECONOMIC CONDITIONS

The agricultural economy of the territory serviced by the Association is very diverse. It is comprised of a significant beef concentration, as well as equine and grain. The cattle industry has recovered from the effects of an over-supply caused by the pandemic. Prices for feeder and slaughter cattle are now back in line with typical market conditions. There is optimism going into 2022 for beef producers as cattle numbers nationwide are down, driving up demand. The equine industry has also withstood the pandemic and is performing well. Horse sales and races have for the most part resumed. 2021 thoroughbred sales were strong on the high end of the market, as well as the equine real estate market. The grain market has seen vast improvement as well. 2021 proved to be a very profitable year for grain producers in our territory as they experienced both high prices and strong yields. The outlook for 2022 is positive as well as prices appear to be holding strong for the time being. Optimism around both crops and cattle is only being tempered by concerns of high input costs for production farm operations.

Farm size varies and many borrowers in the region have diversified farming operations. This factor, along with numerous opportunities for non-farm employment in the area, significantly impacts the level of dependency on any given commodity. Farm real estate values are mixed with some indication that the market is tightening.

The Association's primary competition continues to come from several banks and one System institution. There has been little change in our market base over the past year. Continued efforts are being made to expand services, increase public knowledge of our services and streamline our current delivery of products to enhance our existing portfolio.

## COVID OVERVIEW

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, all loans made by the Association under the PPP program had received forgiveness from the SBA. The total volume of such loans receiving forgiveness from the SBA since the start of the program was \$16.7 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.

## LOAN PORTFOLIO

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

Loan Type	December 31,					
	2021		2020		2019	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 453,888	70.40 %	\$ 426,106	71.30 %	\$ 352,112	65.97 %
Production and intermediate-term	170,704	26.48	150,479	25.18	160,493	30.07
Rural residential real estate	9,257	1.44	10,405	1.74	9,574	1.80
Processing and marketing	2,221	0.34	1,992	0.33	1,993	0.37
Farm-related business	8,626	1.34	8,642	1.45	9,569	1.79
Total	\$ 644,696	100.00 %	\$ 597,624	100.00 %	\$ 533,741	100.00 %

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

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

Branch/Operating Unit	December 31,		
	2021	2020	2019
Lebanon	27.81%	26.56%	27.50%
Lexington	21.12	22.17	20.15
Paris	15.57	15.45	15.52
Danville	13.16	13.96	14.17
Stanford	8.59	8.97	10.03
Richmond	7.77	7.95	8.30
Frankfort	5.87	4.77	4.14
Participations Purchased	0.11	0.17	0.19
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are beef cattle, row crops, horses, and hay/pasture, which constitute approximately 82 percent of the entire portfolio.

Commodity Group	December 31,					
	2021		2020		2019	
	<i>(dollars in thousands)</i>					
Beef Cattle	\$ 238,851	37%	\$ 248,964	42%	\$ 234,580	44%
Row Crops	102,991	16	85,427	14	79,580	15
Horses	95,572	15	96,769	16	76,589	14
Hay/Pasture	87,081	14	67,057	11	47,960	9
Tobacco	20,213	3	24,713	4	29,133	6
Ag Services	14,619	2	13,508	2	16,669	3
Rural Home	7,747	1	8,715	2	9,122	2
Dairy	6,938	1	7,213	1	7,754	1
Other	70,684	11	45,258	8	32,354	6
Total	\$ 644,696	100%	\$ 597,624	100%	\$ 533,741	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of beef cattle, horse producers, row crop producers and hay/pasture producers. Although a large percentage of the loan portfolio is concentrated in these commodities, many of these operations are diversified within their enterprise, reducing overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the price of these commodities. At December 31, 2021, the Association's total commitments to its ten largest borrowers was \$55,243, representing 8.57 percent of total loans. The concentration of large loans has increased somewhat over the past several years. The agricultural enterprise mix of these loans however 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 borrowers' ability to supplement borrowings with non-farm income, and the level of guarantees obtained on the portfolio.

The increase in gross loan volume for the twelve months ended December 31, 2021, is primarily attributed to increases in both production and farm real estate loans. The Association has attracted some large real estate loans over the past few years in addition to normal business. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in November and declines in the winter months as commodities are marketed and proceeds are applied to repay the operating loans.

During 2021, the Association continued activity in the selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk.

The main commodity type in the Participations Purchased portfolio is cattle which accounts for 77.29% of the portfolio. While these participations help spread total portfolio concentration, they also possess unique risks that include exposure to general economic trends, changes in government policy and counterparty risk. The Association manages this risk through routine monitoring, borrowing base reporting and policy driven portfolio limits. Counterparty risks on the entire Participations Purchased portfolio are reduced by the inclusion of System institutions as the lead lender in 22.71% of the portfolio.

Loan Participations:	December 31,		
	2021	2020	2019
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 865	\$ 1,206	\$ 1,037
--Other Institutions	2,942	–	–
Participations Sold			
– FCS Institutions	(82,111)	(64,446)	(29,538)
– Other Institutions	(13,776)	(11,960)	(9,996)
Total	\$ (92,080)	\$ (75,200)	\$ (38,497)

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

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2021, the Association originated and sold into the secondary market loans totaling \$25,181.

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions.

At December 31, 2021, the guaranteed balance of designated loans under these agreements was \$73,711.

## CREDIT RISK MANAGEMENT

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

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

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

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

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

values that make collection in full highly questionable.

- Loss – Assets are considered uncollectible.

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

Credit Quality	2021	2020	2019
Acceptable & OAEM	99.41%	99.20%	99.00%
Substandard	0.58%	0.79%	0.95%
Doubtful/Loss	0.01%	0.01%	0.05%
Total	100.00%	100.00%	100.00%

### Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The Administrative Office Credit Department monitors and works with loans classified as high-risk. The high-risk assets, including accrued interest, are detailed in the following table:

High-risk Assets	December 31,		
	2021	2020	2019
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 1,569	\$ 2,116	\$ 4,533
Restructured loans	1,741	2,847	2,071
Accruing loans 90 days past due	–	–	508
Total high-risk loans	3,310	4,963	7,112
Other property owned	–	–	–
Total high-risk assets	\$ 3,310	\$ 4,963	\$ 7,112
<b>Ratios</b>			
Nonaccrual loans to total loans	0.24%	0.35%	0.85%
High-risk assets to total assets	0.50%	0.80%	1.28%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the full 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 \$547 or 25.85 percent in 2021. This decrease resulted primarily from the payment of proceeds from sale of collateral on two larger nonaccrual credits. Of the \$1,569 in nonaccrual volume at December 31, 2021, \$229 or 14.60 percent, compared to 16.87 percent and 25.52 percent at December 31, 2020 and 2019, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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

### Allowance for Loan Losses

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

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
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 4,637	\$ 4,257	\$ 4,277
Charge-offs:			
Production and intermediate-term	(163)	(23)	(20)
Total charge-offs	(163)	(23)	(20)
Recoveries:			
Production and intermediate-term	2	3	–
Total recoveries	2	3	–
Net (charge-offs) recoveries	(161)	(20)	(20)
Provision for (reversal of allowance for) loan losses	–	400	–
Balance at end of year	\$ 4,476	\$ 4,637	\$ 4,257
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.026)%	(0.004)%	(0.004)%

The net loan charge-offs were primarily associated with charge-offs taken on one loan account. The decrease in the allowance for loan losses was associated with the net loan charge-offs taken during the year, and no provision made to loan reserves.

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
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 3,672	\$ 3,432	\$ 3,055
Production and intermediate-term	748	1,101	1,096
Agribusiness	30	53	58
Rural residential real estate	26	51	48
Total loans	\$ 4,476	\$ 4,637	\$ 4,257

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	0.69%	0.78%	0.80%
Nonperforming loans	135.23%	93.43%	59.86%
Nonaccrual loans	285.28%	219.14%	93.91%

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

**RESULTS OF OPERATIONS**

*Net Interest Income*

Net interest income was \$15,467, \$14,461 and \$13,257 in 2021, 2020 and 2019, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

	<b>Volume*</b>	<b>Rate</b>	<b>Total</b>
<b>12/31/21 - 12/31/20</b>			
Interest income	\$ 2,692	\$ (2,268)	\$ 424
Interest expense	(1,018)	1,601	583
Change in net interest income	\$ 1,674	\$ (667)	\$ 1,007
<b>12/31/20 - 12/31/19</b>			
Interest income	\$ 2,483	\$ (3,553)	\$ (1,070)
Interest expense	(1,359)	3,633	2,274
Change in net interest income	\$ 1,124	\$ 80	\$ 1,204

\* 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:

<b>Noninterest Income</b>	<b>For the Year Ended</b>			<b>Percentage Increase/(Decrease)</b>	
	<b>December 31,</b>			<b>2021</b>	<b>2020</b>
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<i>(dollars in thousands)</i>				
Loan fees	\$ 4,193	\$ 935	\$ 873	348.45 %	7.10 %
Patronage refund from other Farm Credit Institutions	11,663	9,482	6,050	23.00	56.73
Gains (losses) on sales of rural home loans	103	63	9	63.49	600.00
Gains (losses) from sales of premises and equipment, net	20	—	14	100.00	(100.00)
Insurance Fund refunds	—	96	99	(100.00)	(3.03)
Other noninterest income	9	8	28	12.50	(71.43)
Total noninterest income	\$ 15,988	\$ 10,584	\$ 7,073	51.06 %	49.64 %

Regarding patronage refunds received from other Farm Credit Institutions, the Association received \$4,534 in a patronage refund and \$7,129 in a special distribution from the Bank for the year ended December 31, 2021, compared to \$3,825 and \$5,614 for 2020, and \$3,480 and \$2,570 for 2019.

*Noninterest Expense*

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

<b>Noninterest Expense</b>	<b>For the Year Ended</b>			<b>Percentage Increase/(Decrease)</b>	
	<b>December 31,</b>			<b>2021</b>	<b>2020</b>
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 5,576	\$ 5,105	\$ 4,628	9.23 %	10.31 %
Post-retirement benefits	1,206	1,304	992	(7.52)	31.45
Occupancy and equipment expense	361	387	430	(6.72)	(10.00)
Insurance Fund premium	725	398	338	82.16	17.75
(Gains) losses on other property owned, net	—	—	—	—	—
Other operating expense	1,870	1,773	1,633	5.47	8.58
Total noninterest expense	\$ 9,738	\$ 8,967	\$ 8,021	8.60 %	11.79 %

Salaries and employee benefits increased in 2021, as compared with 2020, primarily due to increased costs associated with additional staffing, merit increases, bonuses, and health insurance. Post-retirement benefits decreased \$98 or 7.52 percent in 2021 as compared with 2020. The primary reason for the decrease in post-retirement benefits was a decrease in pension expense due to an increase in the discount rate used to calculate the pension expense. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Occupancy and equipment expense decreased \$26 or 6.72 percent in 2021 as compared with 2020. This decrease is

primarily associated with decreased pandemic-related maintenance expense on office locations, and decreased depreciation expense caused by some furniture and equipment reaching fully-depreciated status. Insurance Fund premiums increased \$327 or 82.16 percent for the twelve months ended December 31, 2021, compared to the same period of 2020 due primarily to an increase in the size of the Association's notes payable with AgFirst and an increase in the insurance premium rates. Other operating expenses increased \$97 or 5.47 percent in 2021 as compared with 2020. The increase is primarily associated with an increase in several expense items including purchased services-professional fees and public and member relations, offset somewhat by a decrease in guarantee loan fees and state intangible taxes.

*Income Taxes*

The Association recorded a provision for income taxes of \$22 for the year ended December 31, 2021, as compared to a provision of \$6 for 2020 and a provision of \$3 for 2019. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/21	12/31/20	12/31/19
Return on average assets	3.40%	2.69%	2.30%
Return on average members' equity	19.08%	15.58%	13.29%
Net interest income as a percentage of average earning assets	2.48%	2.54%	2.55%
Net (charge-offs) recoveries to average loans	(0.026)%	(0.004)%	(0.004)%

The primary factors influencing the increases in return on average assets and return on members' equity were proportionately larger increases in association net earnings than the increase in assets and members' equity.

Key factors in the growth of net income for future years will be continued improvement in net interest and noninterest income along with a moderate increase in operating expenses and additional provisions made for loan losses. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue to remain healthy and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

**LIQUIDITY AND FUNDING SOURCES**

*Liquidity and Funding*

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds." Interest rates on both variable and fixed rate notes payable 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 notes were 1.52 percent for LIBOR-based loans, 1.55 percent for Prime-based loans, and the weighted average remaining maturities were 3.5 years and 1.2 years, respectively, at December 31, 2021. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) notes payable which are match funded by the Bank was 2.39 percent and the weighted average remaining maturity was 15.6 years at December 31, 2021. The weighted average interest rate on all interest-bearing notes payable was 2.29 percent and the weighted average remaining maturity was 13.8 years at December 31, 2021.

Gross notes payable consist of approximately 12.62 percent variable rate and 87.38 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2021. Notes Payable to the 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.

Total notes payable to the Bank at December 31, 2021, was \$537,512 as compared to \$506,250 at December 31, 2020 and \$452,919 at December 31, 2019. The increase of 6.18 percent compared to December 31, 2020, and the increase of 11.77 percent at December 31, 2020 compared to December 31, 2019, were attributable to the loan growth in the Association. The average volume of outstanding notes payable to the Bank was \$518,314 and \$478,880 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 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 investments and 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 outstanding 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. The Association utilizes differential pricing for its loans based on credit risk, length of maturity, service cost, and market variables, thereby giving the Association the ability in large part to control its interest rate margins. Net interest income as a percentage of average earning assets was 2.48% for 2021, 2.54% for 2020, and 2.55% for 2019. The decrease in net interest income as a percentage of average earning assets for 2021 as compared to the previous year is primarily due to a decrease in the average interest rate margin realized on the loan portfolio as compared to the previous year, and strong loan growth in 2021.

### *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 settings as of June 30, 2023. On the same day, the UK FCA announced that the IBA had notified the UK FCA of its intent, among other things, to cease providing certain US dollar LIBOR settings as of June 30, 2023. In its announcement, the UK FCA confirmed that all 35 LIBOR tenors (including with respect to US dollar LIBOR) will be discontinued or declared nonrepresentative as of either: (a) immediately after December 31, 2021 or (b) immediately after June 30, 2023.

The Association has exposure to LIBOR arising from loans made to customers and Systemwide Debt Securities issued by the Funding Corporation on the Bank's behalf. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial

instruments, which could adversely affect the value of, and return on, instruments held.

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

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

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

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

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

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

<i>(dollars in thousands)</i>	Due in 2022	Due in 2023 (On or Before June 30)	Due After June 20, 2023	Total
Loans	\$237	\$85	\$1,086	\$1,408
Total Assets	\$237	\$85	\$1,086	\$1,408
Note Payable to Bank	\$203	\$73	\$929	\$1,205
Total Liabilities	\$203	\$73	\$929	\$1,205

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 8 percent of loans maturing after June 30, 2023 do not contain fall back language.

#### *Relationship with the Bank*

In both financial and non-financial areas, the Association has a materially interdependent relationship with the Bank.

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

The Bank's ability to require additional capital contributions from the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, included in this annual report.

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

The Association receives a patronage refund from the Bank which it records on an accrual basis.

In addition to the financial relationships described, the Association may act as a service provider to the Bank on certain participation loans that the Association has sold to the Bank. The Bank also provides operational assistance to the Association in many areas including cash management, accounting and reporting, human resources, computer networks and technology.

#### **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 2020 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 12.87 percent to \$119,800 from the December 31, 2020, total of \$106,137. At December 31, 2020, total members' equity increased 11.08 percent from the December 31, 2019 total of \$95,553. The increases were primarily attributed to net income, partially offset by cash patronage paid.

Total capital stock and participation certificates were \$4,360 on December 31, 2021, compared to \$4,112 on December 31, 2020 and \$3,910 on December 31, 2019. The increase was primarily attributed to an increase in borrower purchases of stock and participation certificates.

FCA regulations require all Farm Credit institutions to maintain minimum levels of several regulatory capital and leverage ratios. Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced total surplus and core surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios, as well as a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio remains in effect. The capital ratios are calculated by dividing various levels of capital by a risk-adjusted asset base. Risk-adjusted assets have been defined by FCA regulations as 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. Calculation of permanent capital ratio 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 leverage ratios are calculated by dividing various types of capital by total regulatory assets (not risk-adjusted). For all periods represented, the Association exceeded the minimum regulatory standard for all of the ratios.

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of		
				2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital Ratio	4.5%	2.50%	7.00%	18.22%	17.29%	17.92%
Tier 1 Capital Ratio	6.0%	2.50%	8.50%	18.22%	17.29%	17.92%
Total Capital Ratio	8.0%	2.50%	10.50%	18.99%	18.11%	18.80%
Permanent Capital Ratio	7.0%	–%	7.00%	18.38%	17.46%	18.12%
Non-risk-adjusted:						
Tier 1 Leverage Ratio **	4.0%	1.00%	5.00%	16.74%	15.72%	15.99%
UREE Leverage Ratio	1.5%	–%	1.50%	16.31%	15.36%	15.62%

\* Capital conservation buffers became fully 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.

The decrease in the Association’s regulatory capital ratios for December 31, 2021 was attributed to increased retained earnings from net income proportionately weaker than the stronger than normal growth in loan volume. There are no trends, commitments, contingencies, or events that are likely to affect the Association’s ability to meet regulatory minimum capital standards and capital adequacy requirements.

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

### PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association’s Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute to borrowers on a patronage basis all or any portion of its available patronage sourced 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) purchase money mortgages and sales contracts, (b) participation loans purchased, (c) loans specified in advance as non-patronage, (d) the Association’s defined benefit retirement plan income, (e) extraordinary income resulting from a change in accounting procedure, and (f) other non-patronage income as allowed by law, including lease income, the 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 allocations. The Association declared total patronage allocations of \$18,421 in 2021, \$12,583 in 2020, and \$10,403 in 2019. Of those amounts, the Association declared a cash patronage payable of \$7,737 in 2021, \$5,285 in 2020 and \$4,161 in 2019. The remaining patronage allocations were in the form of allocated retained earnings. With the resulting improvements in earnings and capital levels, the Association increased its cash patronage payout percentage for 2020 and 2021.

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

The Association’s mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young\*, Beginning\*\* and Small\*\*\* farmers.

- \* 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.

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. Actual program results in 2021 were 100% of program goals or better for young, beginning and small farmers.

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	
	Actual	Goal	Actual	Goal
Young	1,318	1,270	\$102,025	\$92,000
Beginning	1,329	1,300	112,583	95,000
Small	4,957	4,600	337,827	280,000

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-NASS Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 24,713 reported farmers of which by definition 2,600 or 10.52 percent were Young, 7,066 or 28.59 percent were Beginning, and 23,477 or 95.00 percent were Small. Comparatively, as of December 31, 2021, the demographics of the Association's agricultural portfolio contained 3,179 farmers, of which by definition 709 or 22.30 percent were Young, 840 or 26.42 percent were Beginning and 2,622 or 82.48 percent were Small.

In addition to our marketing strategies, in 2021 the Association utilized the following strategies and outreach programs:

- Support of 4H, FFA and young farmer organizations through sponsorships and donations.
- Offering loan guarantees and interest rate subsidies through Preferred Lender Programs with Farm Services Administration (FSA).
- FSA Loan Guarantee Fee Subsidy Program.
- Reduced Rate Coordination Programs with the Kentucky Agricultural Finance Corporation.
- Utilizing the Central Kentucky Ag Start Program, a program developed in collaboration with a Young Farmers Advisory Council.

The Association met its 2021 qualitative goals in coordination of programs, FSA Guarantee Loan Volume, Reduced Rate Coordination Program, and statewide youth program advertising and sponsorships.

The Business Analyst and the Marketing Specialist coordinate the Association's efforts for YBS programs. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

#### *Demographics*

The Association has used the 2017 USDA-NASS Ag Census as our source of demographic data for the counties in our territory. There are several differences in the methods by which the demographic and YBS Farmer data is presented. Young farmers are defined by the FCA as 35 years old or less. The USDA-NASS Ag Census demographic stratification breaks at 34 years old, which was used to compare to FCA's definition. Beginning farmers are defined by the FCA as having 10 years or less farming experience. There is no measurement matching this definition in the USDA-NASS Ag Census; however the census does identify farmers on their current farm less than 10 years. That statistic may include beginning farmers, but may also include experienced farmers who have recently changed farmsteads. As with the case of the Young information, the Beginning information in the USDA-NASS Ag Census is not an exact comparison to the FCA definition, but will be utilized as the best comparison available. The FCA Small definition matches with the USDA-NASS Ag Census delineation of farm entities with sales of less than \$250 thousand. Other data differences: The farmers experience is as of the date of the USDA-NASS Ag Census, while the Association data is compiled as to the date the loan was made. Small farmers is by each individual farm entity from the USDA-NASS Ag Census data, while the Association data is compiled as of the date of the

loan and represents the total value of sales of closely related entities rather than individual entities. The USDA-NASS Ag Census data reflects all farms whether they use debt or not. While the statistical results of the USDA-NASS Ag Census do not match the FCA definitions exactly and there are timing issues, they do provide a consistent source of measurement with which to assess Association targets and goals.

#### **REGULATORY MATTERS**

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

On August 26, 2021, the FCA issued a proposed rule to revise its regulatory capital requirements to define and establish risk-weightings for High Volatility Commercial Real Estate (HVCRE) by assigning a 150 percent risk-weighting to such exposures, instead of the current 100 percent. The proposed rule would ensure that the FCA's rule remains comparable with the capital rule of other federal banking regulatory agencies and recognizes the increased risk posed by HVCRE exposures. The public comment period ended 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
<b><i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i></b>	
<ul style="list-style-type: none"> <li>• 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.</li> <li>• Changes the present incurred loss impairment guidance for loans to an expected loss model.</li> <li>• 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.</li> <li>• Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets.</li> <li>• Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.</li> <li>• Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• The new guidance is expected to result in a change in allowance for credit losses due to several factors, including:               <ol style="list-style-type: none"> <li>1. The allowance related to loans and commitments will most likely change because it will then cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions,</li> <li>2. An allowance will be established for estimated credit losses on any debt securities,</li> <li>3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans.</li> </ol> </li> <li>• 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.</li> <li>• The guidance is expected to be adopted in first quarter 2023.</li> </ul>

# *Disclosure Required by Farm Credit Administration Regulations*

## **Description of Business**

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

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

## **Description of Property**

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

<b>Location</b>	<b>Description</b>	<b>Form of Ownership</b>
640 South Broadway Lexington	Administrative	Owned
640 South Broadway Lexington	Branch	Owned
485 N Danville Bypass Danville	Branch	Owned
1000 Ival James Boulevard Richmond	Branch	Owned
201 Commerce Drive Paris	Branch	Owned
842 W Main Lebanon	Branch	Owned
106 Agriculture Way Stanford	Branch	Owned
1120 US Highway 127 South Frankfort	Branch	Leased

## **Legal Proceedings**

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

## **Description of Capital Structure**

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

## **Description of Liabilities**

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

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

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

## **Senior Officers**

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

<b>Senior Officer</b>	<b>Position</b>
James W. Caldwell	<i>President and Chief Executive Officer</i> - since January, 2009
Jonathan T. Noe	<i>Vice President and Chief Lending Officer</i> - since September, 2008
Marcus G. Barnett	<i>Vice President and Chief Financial Officer</i> - since August, 2004
Shane Turner	<i>Vice President and Chief Risk Officer</i> - since October, 2017

The business experience for the past five years for senior officers is with the Farm Credit System.

The total amount of compensation (in whole dollars) earned by the CEO and the highest paid officers (excluding the CEO) as a group during the years ended December 31, 2021, 2020 and 2019, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus.

Name of Individual or Number in Group	Received Compensation			
	Year	Salary	Bonus	Total Received (a)
James W. Caldwell	2021	\$ 366,611	\$ 4,500	\$ 371,111
James W. Caldwell	2020	\$ 352,514	\$ 4,900	\$ 357,414
James W. Caldwell	2019	\$ 329,213	\$ 3,900	\$ 333,113
5	2021	\$ 829,524	\$ 65,709	\$ 895,233
5	2020	\$ 791,330	\$ 57,057	\$ 848,387
5	2019	\$ 749,029	\$ 38,213	\$ 787,242

The table below discloses forms of perquisites and other noncash compensation and these items are described in detail in the subsequent paragraphs, which do not reflect actual cash compensation received by the CEO or officers presented. The total of all cash (a) and noncash (b) compensation for the CEO and officers is also presented here.

Name of Individual or Number in Group	Year	Perquisites and Other Compensation			Total Compensation (a+b)
		Change in Pension**	Perq./ Other*	Total Perq. and Other (b)	
James W. Caldwell	2021	\$ (15,302)	\$ 12,289	\$ (3,013)	\$ 368,098
James W. Caldwell	2020	\$ 353,211	\$ 7,279	\$ 360,490	\$ 717,904
James W. Caldwell	2019	\$ 484,763	\$ 9,307	\$ 494,070	\$ 827,183
5	2021	\$ 301,463	\$ 11,286	\$ 312,749	\$ 1,207,982
5	2020	\$ 858,967	\$ 5,703	\$ 864,670	\$ 1,713,057
5	2019	\$ 1,047,893	\$ 5,113	\$ 1,053,006	\$ 1,840,248

\*The Perquisites/Other amount disclosed in the above chart includes automobile compensation, cost of group insurance in excess of \$50,000, and spousal travel.

\*\*This figure is a third party actuarial determination of the change in present value of the estimated pension cash flows. This does not represent any actual cash compensation provided to any employee, but is simply a change in the calculation that is affected by a number of assumptions and inputs.

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.

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. Actuarial assumptions are updated periodically. 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 addition to the discount rate, other factors such as increases in compensation or additional years of service for plan participants will also cause a change in the present value of pension benefits. Specifically, an additional year of service leading up to the earliest unreduced retirement date and increases in compensation may lead to increases in present value of pension benefits. An additional year of service past the unreduced retirement date may lead to a decrease in the present value of pension benefits.

For pension values at December 31, 2021, an increase in the discount rate assumption caused pension values to decrease, but this was offset by other factors such as increases in compensation and additional years of service for plan participants. For pension values at December 31, 2020 and December 31, 2019, the increase was due to a decrease in the discount rate and an increase in benefit accruals due to the passage of another year.

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan.

Additional information on pension benefits related to the CEO and the highest paid officers as a group for the year ended December 31, 2021 is 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
James W. Caldwell	2021	Independent Associations Retirement Plan	41	\$ 3,243,701	\$ -
<b>Senior Officers and Highly Compensated Employees:</b>					
5	2021	Independent Associations Retirement Plan	*28	\$ 5,097,431	\$ -

\* Represents the average years of credited service for the group.

\*\*This figure is a third party actuarial determination of the present value of the estimated pension cash flows. Please refer to information provided above giving further explanation of assumptions used in order to calculate the present value of pension benefits.

In addition to a base salary, the branch lending staff can earn additional compensation under an incentive plan. There were no material changes to the incentive plan adopted for 2021 as the plan design continues to motivate new business development. In addition to this incentive plan for the lending staff, the entire Association staff, including senior officers, may receive a bonus at the discretion of the Board of Directors. While discretionary, these bonuses are generally based on the efforts of staff, including senior officers, in striving to accomplish business plan objectives such as profitability, growth, credit quality and overall performance. All of these bonuses were paid in the 2021 calendar year, except for incentive plan bonuses for October and November 2021. Those bonuses were earned and accrued in 2021, but were not paid until January 2022. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

**Directors**

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$9,593 for 2021, \$15,698 for 2020 and \$25,278 for 2019.

Subject to approval by the board, the Association may allow the chairman of the board of directors, the chairman of the audit and human resources committees, and other director’s honoraria of \$1,000, \$950 and \$900 respectively for attendance at meetings, committee meetings, or special assignments. Directors also receive \$150 for participation in board or committee related conference calls. In 2021, total cash compensation paid to directors as a group was \$95,700. No non-cash compensation was paid to directors in 2021.

The following represents certain information regarding the directors of the Association and their principal occupations:

**James Alvin Lyons** was re-elected to a four-year term on the Board of Directors at the 2020 Annual Meeting. His current term expires in 2024. He presently serves as Chairman of the Board, a position he has held since April 2011. During the past 5 years, Mr. Lyons has produced alfalfa, corn, soybeans, wheat, has a commercial cow-calf program and backgrounds feeder cattle on his farming operation in Scott County. Mr. Lyons serves as a Board member of the Scott County Farm Bureau and is a member of the Scott County Beef Improvement Board. In addition, he serves as a member of the Scott County Rural Land Management Board. Mr. Lyons is also a Magistrate on the Scott County Fiscal Court. From 2018 through 2021, Mr. Lyons served as a director for the AgFirst Farm Credit Bank. During 2021, Mr. Lyons served 11 days at Association Board meetings, 2 days in other official activities, participated in 5 conference calls, and was paid \$13,750 in compensation.

**James C. (“Jim”) Rankin III** was re-elected to a four-year term on the Board of Directors at the 2020 Annual Meeting. His current term expires in 2024. He presently serves as Vice Chairman of the Board, a position he has held since February 2014. During the past 5 years, Mr. Rankin has produced soybeans, wheat and alfalfa on his farming operation in Bourbon County. Mr. Rankin owns thoroughbred mares, and boards mares and foals. He also raises thoroughbreds for racing. In addition, Mr. Rankin partners with a son in the thoroughbred horse operation, in a cow/calf operation, feeders, hay and grain. He also partners with another son in a cow/calf operation, feeders, hay and grain. Mr. Rankin also serves on the District Advisory Council for the AgFirst Farm Credit Bank. During 2021, Mr. Rankin served 11 days at Association Board meetings, 4 days in other official activities, participated in 5 conference calls, and was paid \$14,250 in compensation.

**Patrick Higginbotham** was elected to a four-year term on the Board of Directors at the 2019 Annual Meeting. His current term expires in 2023. During the past five years, Mr. Higginbotham has served as a pharmacist at the Veterans Administration Hospital in Lexington, Kentucky. He also serves as an adjunct faculty member at the University of Kentucky College of Pharmacy. He runs a horse boarding operation and produces hay on his farm in Fayette County. In addition, Mr. Higginbotham serves on the Fayette County Farm Bureau Board of Directors, and is a deacon for Trinity Christian Fellowship Church. He also serves as Chairman of the Fayette County Ag Development Council. During 2021,

Mr. Higginbotham served 11 days at Association Board meetings, 2 days in other official activities, participated in 3 conference calls, and was paid \$12,150 in compensation.

**Joe Myers** was re-elected to a four-year term on the Board of Directors at the 2018 Annual Meeting. His current term expires in 2022. During the past 5 years, Mr. Myers has owned and operated Myers Angus Farm, an 80 head purebred angus cow operation on his farming operation in Mercer County, marketing registered bulls, females, and embryos throughout Kentucky, multiple states, and foreign countries. He also serves as a Beef Sire Analyst for Select Sires, Inc. where he is responsible for purchasing/leasing bulls to enter into the A.I. Genetics Program. During 2021, Mr. Myers served 11 days at Association Board meetings, 3 days in other official activities, participated in 3 conference calls, and was paid \$13,050 in compensation.

**Lee Hood** was re-elected to a four-year term on the Board of Directors at the 2021 Annual Meeting. Her current term expires in 2025. During the past 5 years, Ms. Hood has served as Chief Financial officer for Clements Ag Supply, Inc. in Springfield, Kentucky. She owns and leases land in Washington County where she operates a cow/calf operation, backgrounds feeder cattle, and produces 300 acres of hay. Ms. Hood also has a 50% ownership interest in Blandford Mills, LLC, a feed and farm supply business. Since 2019, Ms. Hood has served as Chair of the Board Audit Committee. During 2021, Ms. Hood served 11 days at Association Board meetings, 3 days in other official activities, participated in 3 conference calls, and was paid \$13,700 in compensation.

Pursuant to the Agricultural Credit Act of 1987 and in compliance with Association Bylaws, the Association Board of Directors first elected during 2001 a member to the Board who is not a director, officer, employee or shareholder of any Farm Credit System institution (i.e. Outside Director).

**Dan Grigson** was first elected as an Outside Director by the Association Board of Directors in 2017. His current term expires in April 2025. Mr. Grigson retired from the University of Kentucky College of Agriculture in 2017 where he served as an Agricultural Extension Agent from 1974 through 2016. He currently serves as Funeral Director's Assistant at Spurlin Funeral Home. During the past 5 years Mr. Grigson has served as Burial Services Recording Secretary of the Buffalo Springs Cemetery Board. He is currently Vice President of the Lincoln County Fair Board, and Vice President of the Lincoln County Farm Bureau Federation. Mr. Grigson also serves on the District Legislative Advisory Council for the AgFirst Farm Credit Bank. During 2021, Mr. Grigson served 11 days at Association Board meetings, 3 days in other official activities, participated in 8 conference calls, and was paid \$13,800 in compensation.

**Mary-Lynn Hinkel** was first elected as an Outside Director by the Association Board of Directors in 2014. She was reelected in 2020, and her current term expires in April 2024. Ms. Hinkel retired from CMTA Consulting Engineers in 2019 where she served as HR Staffing Coordinator, recruiting staff for eight offices located throughout the U.S. Previously, Ms. Hinkel was Associate Director of Tax Services at Dean, Dorton, Allen, Ford, PLLC where she provided compliance services including tax, financial statements and accounting for

business, individuals, and non-profit organizations. Her services concentrated in physicians and the healthcare industry, manufacturing, and real estate of closely-held and family-owned businesses. During the past 5 years Ms. Hinkel has served on the United Way of the Bluegrass Agency Review Executive Committee, and as a Banking Committee member for Equestrian Events, Inc. She has also served as a Board Member and Treasurer for Lexington and Central Kentucky Youth Salute. Ms. Hinkel has also served as a board member for Mark Hinkel Pedaling Forward, a 501(c)3. Since 2019, Ms. Hinkel has served as Chair of the Board Human Resources Committee. She previously served as Chair of the Board Audit Committee from 2017 to 2019, and has served as the Board Financial Expert since 2017. During 2021, Ms. Hinkel served 11 days at Association Board meetings, 4 days in other official activities, participated in 5 conference calls, and was paid \$15,000 in compensation.

#### **Transactions with Senior Officers and Directors**

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

#### **Transactions Other Than Loans**

There have been no transactions that occurred at any time during the year ended December 31, 2021, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. 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 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.

#### **Involvement in Unincorporated Business Entities**

The Association holds no equity investments in Unincorporated Business Entities (UBE) at December 31, 2021.

#### **Relationship with Independent Auditors**

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

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

	<u>2021</u>
<b>Independent Auditors</b>	
PricewaterhouseCoopers LLP	
Audit services	\$ 82,921
Total	<u>\$ 82,921</u>

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 Unaudited Quarterly reports are available upon request free of charge by calling 1-859-253-3249, or writing Marcus G. Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, Kentucky 40588-1290, or accessing the website, [www.agcreditonline.com](http://www.agcreditonline.com). The Association prepares an electronic version of the Annual Report which is available on the Association’s website within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Unaudited 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 may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank’s Annual and Unaudited Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst’s web site at [www.agfirst.com](http://www.agfirst.com). The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Unaudited Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

## *Report of the Audit Committee*

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Central Kentucky Agricultural Credit Association (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 Central Kentucky Agricultural Credit Association. 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:



Lee M. Hood  
Chair of the Audit Committee

### **Members of Audit Committee**

James Alvin Lyons  
James C. Rankin III  
Patrick Higginbotham  
Joe Myers  
Mary-Lynn Hinkel  
Dan Grigson

March 10, 2022





## Report of Independent Auditors

To the Board of Directors and Management of Central Kentucky Agricultural Credit Association

### ***Opinion***

We have audited the accompanying consolidated financial statements of Central Kentucky Agricultural Credit Association 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.

*Pricewaterhouse Coopers LLP*

Atlanta, Georgia  
March 10, 2022

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	December 31,		
	2021	2020	2019
<b>Assets</b>			
Cash	\$ 790	\$ 2,009	\$ 2,468
Loans	644,696	597,624	533,741
Allowance for loan losses	(4,476)	(4,637)	(4,257)
Net loans	640,220	592,987	529,484
Loans held for sale	272	1,061	207
Accrued interest receivable	5,573	5,825	7,417
Equity investments in other Farm Credit institutions	6,657	6,873	7,106
Premises and equipment, net	2,557	2,732	2,847
Accounts receivable	11,735	9,504	6,077
Other assets	83	38	58
Total assets	<b>\$ 667,887</b>	<b>\$ 621,029</b>	<b>\$ 555,664</b>
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 537,512	\$ 506,250	\$ 452,919
Accrued interest payable	1,031	989	1,222
Patronage refunds payable	7,907	5,414	4,310
Accounts payable	888	587	758
Advanced conditional payments	—	—	3
Other liabilities	749	1,652	899
Total liabilities	<b>548,087</b>	<b>514,892</b>	<b>460,111</b>
Commitments and contingencies (Note 11)			
<b>Members' Equity</b>			
Capital stock and participation certificates	4,360	4,112	3,910
Retained earnings			
Allocated	86,217	74,792	67,498
Unallocated	29,223	27,233	24,145
Total members' equity	<b>119,800</b>	<b>106,137</b>	<b>95,553</b>
Total liabilities and members' equity	<b>\$ 667,887</b>	<b>\$ 621,029</b>	<b>\$ 555,664</b>

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

# Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2021	2020	2019
<b>Interest Income</b>			
Loans	\$ 27,251	\$ 26,827	\$ 27,897
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	11,784	12,366	14,640
Net interest income	15,467	14,461	13,257
Provision for loan losses	—	400	—
Net interest income after provision for loan losses	15,467	14,061	13,257
<b>Noninterest Income</b>			
Loan fees	4,193	935	873
Lease income	4	7	25
Patronage refunds from other Farm Credit institutions	11,663	9,482	6,050
Gains (losses) on sales of rural home loans, net	103	63	9
Gains (losses) on sales of premises and equipment, net	20	—	14
Insurance Fund refunds	—	96	99
Other noninterest income	5	1	3
Total noninterest income	15,988	10,584	7,073
<b>Noninterest Expense</b>			
Salaries and employee benefits	6,782	6,408	5,620
Occupancy and equipment	361	387	430
Insurance Fund premiums	725	398	338
Other operating expenses	1,870	1,775	1,633
Total noninterest expense	9,738	8,968	8,021
Income before income taxes	21,717	15,677	12,309
Provision for income taxes	22	6	3
<b>Net income</b>	\$ 21,695	\$ 15,671	\$ 12,306
Other comprehensive income	—	—	—
<b>Comprehensive income</b>	\$ 21,695	\$ 15,671	\$ 12,306

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

# Consolidated Statements of Changes in Members' Equity

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2018	\$ 4,225	\$ 61,064	\$ 22,437	\$ 87,726
Comprehensive income			12,306	12,306
Capital stock/participation certificates issued/(retired), net	(315)			(315)
Patronage distribution				
Cash			(4,161)	(4,161)
Nonqualified retained earnings		6,242	(6,242)	—
Patronage distribution adjustment		192	(195)	(3)
Balance at December 31, 2019	\$ 3,910	\$ 67,498	\$ 24,145	\$ 95,553
Comprehensive income			15,671	15,671
Capital stock/participation certificates issued/(retired), net	202			202
Patronage distribution				
Cash			(5,285)	(5,285)
Nonqualified retained earnings		7,298	(7,298)	—
Patronage distribution adjustment		(4)		(4)
Balance at December 31, 2020	\$ 4,112	\$ 74,792	\$ 27,233	\$ 106,137
<b>Comprehensive income</b>			<b>21,695</b>	<b>21,695</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>248</b>			<b>248</b>
<b>Patronage distribution</b>				
<b>Cash</b>			<b>(7,737)</b>	<b>(7,737)</b>
<b>Nonqualified retained earnings</b>		<b>10,684</b>	<b>(10,684)</b>	<b>—</b>
<b>Patronage distribution adjustment</b>		<b>741</b>	<b>(1,284)</b>	<b>(543)</b>
Balance at December 31, 2021	\$ 4,360	\$ 86,217	\$ 29,223	\$ 119,800

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

# Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2021	2020	2019
<b>Cash flows from operating activities:</b>			
Net income	\$ 21,695	\$ 15,671	\$ 12,306
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	205	147	199
Amortization (accretion) of net deferred loan costs (fees)	(5)	(5)	(2)
Provision for loan losses	—	400	—
(Gains) losses on sales of premises and equipment, net	(20)	—	(14)
(Gains) losses on sales of rural home loans, net	(103)	(63)	(9)
Changes in operating assets and liabilities:			
Origination of loans held for sale	(25,181)	(17,457)	(18,391)
Proceeds from sales of loans held for sale, net	26,073	16,666	18,193
(Increase) decrease in accrued interest receivable	252	1,592	(262)
(Increase) decrease in accounts receivable	(2,231)	(3,427)	738
(Increase) decrease in other assets	(45)	20	(31)
Increase (decrease) in accrued interest payable	42	(233)	(37)
Increase (decrease) in accounts payable	301	(171)	106
Increase (decrease) in other liabilities	(903)	753	(45)
Total adjustments	(1,615)	(1,778)	445
Net cash provided by (used in) operating activities	20,080	13,893	12,751
<b>Cash flows from investing activities:</b>			
Net (increase) decrease in loans	(47,228)	(63,898)	(20,714)
(Increase) decrease in equity investments in other Farm Credit institutions	216	233	(7)
Purchases of premises and equipment	(30)	(32)	(132)
Proceeds from sales of premises and equipment	20	—	27
Net cash provided by (used in) investing activities	(47,022)	(63,697)	(20,826)
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	31,262	53,331	11,804
Net increase (decrease) in advanced conditional payments	—	(3)	3
Capital stock and participation certificates issued/(retired), net	248	202	(315)
Patronage refunds and dividends paid	(5,787)	(4,185)	(3,995)
Net cash provided by (used in) financing activities	25,723	49,345	7,497
Net increase (decrease) in cash	(1,219)	(459)	(578)
Cash, beginning of period	2,009	2,468	3,046
Cash, end of period	\$ 790	\$ 2,009	\$ 2,468
<b>Supplemental schedule of non-cash activities:</b>			
Estimated cash dividends or patronage distributions declared or payable	\$ 7,737	\$ 5,285	\$ 4,161
<b>Supplemental information:</b>			
Interest paid	\$ 11,742	\$ 12,599	\$ 14,677
Taxes (refunded) paid, net	11	—	9

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:** Central Kentucky Agricultural Credit Association (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Anderson, Bourbon, Boyle, Clark, Fayette, Franklin, Garrard, Harrison, Jessamine, Lincoln, Madison, Marion, Mercer, Montgomery, Scott, Washington and Woodford in the state of Kentucky.

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

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

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

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure

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

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

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

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

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

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers.

Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

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

## Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past

due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

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

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

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

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



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

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

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

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

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

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

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

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

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

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

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

***Equity Investments in Other Farm Credit System Institutions***

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

***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.

Additional information may be found in Note 9.

**Multiemployer Defined Benefit Plans**

Substantially all employees hired before January 1, 2009 may participate in the Independent Associations Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

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

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

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

- I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income

taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

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

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

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

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

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

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

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

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

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

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

Additional information may be found in Note 8.

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

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

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

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

**Financial Instruments**

The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis

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

**Contracts with Customers**

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

**Gains and Losses from Nonfinancial Assets**

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

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

**Lessee**

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

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

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

recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

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

**Lessor**

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

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

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

- O. **Accounting Standards Updates (ASUs):** In October 2020, the FASB issued ASU 2020-10 Codification Improvements. The amendments represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Update moves or references several disclosure requirements from Section 45 - Other Presentation Matters to Section 50 - Disclosures. It also includes minor changes to other guidance such as Cash Balance Plans, Unusual or Infrequent Items, Transfers and Servicing, Guarantees, Income Taxes, Foreign Currency, Imputation of Interest, Not For Profits and Real Estate Projects. Adoption of this guidance had no effect on the statements of financial condition and results of operations. In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be

accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments were effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Adoption of this guidance had no effect on the statements of financial condition and results of operations.

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

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

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

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

affordable housing projects accounted for using the equity method.

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

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

### Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower’s normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such

investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2021	2020	2019
Real estate mortgage	\$ 453,888	\$ 426,106	\$ 352,112
Production and intermediate-term	170,704	150,479	160,493
Processing and marketing	2,221	1,992	1,993
Farm-related business	8,626	8,642	9,569
Rural residential real estate	9,257	10,405	9,574
Total loans	\$ 644,696	\$ 597,624	\$ 533,741

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	\$ -	\$ 64,289	\$ -	\$ -	\$ 2,942	\$ 11,607	\$ 2,942	\$ 75,896
Production and intermediate-term	-	13,869	157	-	-	1,368	157	15,237
Processing and marketing	708	-	-	-	-	-	708	-
Farm-related business	-	3,953	-	-	-	801	-	4,754
Total	\$ 708	\$ 82,111	\$ 157	\$ -	\$ 2,942	\$ 13,776	\$ 3,807	\$ 95,887

	December 31, 2020							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ -	\$ 42,144	\$ -	\$ -	\$ -	\$ 9,162	\$ -	\$ 51,306
Production and intermediate-term	-	17,826	178	-	-	1,940	178	19,766
Processing and marketing	1,028	-	-	-	-	-	1,028	-
Farm-related business	-	4,476	-	-	-	858	-	5,334
Total	\$ 1,028	\$ 64,446	\$ 178	\$ -	\$ -	\$ 11,960	\$ 1,206	\$ 76,406

	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	\$ -	\$ 13,211	\$ -	\$ -	\$ -	\$ 6,953	\$ -	\$ 20,164
Production and intermediate-term	-	9,008	-	-	-	2,271	-	11,279
Processing and marketing	1,037	-	-	-	-	-	1,037	-
Farm-related business	-	7,319	-	-	-	772	-	8,091
Total	\$ 1,037	\$ 29,538	\$ -	\$ -	\$ -	\$ 9,996	\$ 1,037	\$ 39,534

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
<b>Real estate mortgage:</b>				<b>Farm-related business:</b>			
Acceptable	97.90%	97.46%	95.85%	Acceptable	100.00%	100.00%	100.00%
OAEM	1.41	1.68	3.26	OAEM	–	–	–
Substandard/doubtful/loss	0.69	0.86	0.89	Substandard/doubtful/loss	–	–	–
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>				<b>Rural residential real estate:</b>			
Acceptable	98.16%	97.79%	95.88%	Acceptable	98.44%	98.36%	96.13%
OAEM	1.50	1.53	2.85	OAEM	0.33	0.41	2.31
Substandard/doubtful/loss	0.34	0.68	1.27	Substandard/doubtful/loss	1.23	1.23	1.56
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>				<b>Total loans:</b>			
Acceptable	100.00%	48.88%	48.58%	Acceptable	98.01%	97.44%	95.76%
OAEM	–	51.12	51.42	OAEM	1.40	1.76	3.24
Substandard/doubtful/loss	–	–	–	Substandard/doubtful/loss	0.59	0.80	1.00
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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	\$ 1,075	\$ 691	\$ 1,766	\$ 455,589	\$ 457,355
Production and intermediate-term	625	549	1,174	171,576	172,750	
Processing and marketing	–	–	–	2,225	2,225	
Farm-related business	–	–	–	8,663	8,663	
Rural residential real estate	241	–	241	9,035	9,276	
Total	\$ 1,941	\$ 1,240	\$ 3,181	\$ 647,088	\$ 650,269	

	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	\$ 1,146	\$ 688	\$ 1,834	\$ 427,907	\$ 429,741
Production and intermediate-term	218	938	1,156	151,441	152,597	
Processing and marketing	–	–	–	2,005	2,005	
Farm-related business	–	–	–	8,672	8,672	
Rural residential real estate	–	–	–	10,434	10,434	
Total	\$ 1,364	\$ 1,626	\$ 2,990	\$ 600,459	\$ 603,449	

	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	\$ 643	\$ 1,974	\$ 2,617	\$ 353,729	\$ 356,346
Production and intermediate-term	396	2,326	2,722	160,862	163,584	
Processing and marketing	–	–	–	2,010	2,010	
Farm-related business	–	–	–	9,619	9,619	
Rural residential real estate	4	–	4	9,595	9,599	
Total	\$ 1,043	\$ 4,300	\$ 5,343	\$ 535,815	\$ 541,158	

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

	December 31,		
	2021	2020	2019
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 892	\$ 879	\$ 1,828
Production and intermediate-term	563	1,109	2,559
Rural residential real estate	114	128	146
Total	<u>\$ 1,569</u>	<u>\$ 2,116</u>	<u>\$ 4,533</u>
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ 1,213	\$ 2,203	\$ 1,390
Production and intermediate-term	528	644	681
Total	<u>\$ 1,741</u>	<u>\$ 2,847</u>	<u>\$ 2,071</u>
<b>Accruing loans 90 days or more past due:</b>			
Real estate mortgage	\$ -	\$ -	\$ 251
Production and intermediate-term	-	-	257
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 508</u>
Total nonperforming loans	\$ 3,310	\$ 4,963	\$ 7,112
Other property owned	-	-	-
Total nonperforming assets	<u>\$ 3,310</u>	<u>\$ 4,963</u>	<u>\$ 7,112</u>
Nonaccrual loans as a percentage of total loans	0.24%	0.35%	0.85%
Nonperforming assets as a percentage of total loans and other property owned	0.51%	0.83%	1.33%
Nonperforming assets as a percentage of capital	<u>2.76%</u>	<u>4.68%</u>	<u>7.44%</u>

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

	December 31,		
	2021	2020	2019
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 229	\$ 357	\$ 1,158
Past due	1,340	1,759	3,375
Total	<u>\$ 1,569</u>	<u>\$ 2,116</u>	<u>\$ 4,533</u>
<b>Impaired accrual loans:</b>			
Restructured	\$ 1,741	\$ 2,847	\$ 2,071
90 days or more past due	-	-	508
Total	<u>\$ 1,741</u>	<u>\$ 2,847</u>	<u>\$ 2,579</u>
Total impaired loans	<u>\$ 3,310</u>	<u>\$ 4,963</u>	<u>\$ 7,112</u>
Additional commitments to lend	\$ -	-	\$ 120

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
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 2	\$ -	\$ -	\$ 2	\$ -
Production and intermediate-term	381	381	268	428	5
Rural residential real estate	-	-	-	-	-
Total	<u>\$ 383</u>	<u>\$ 381</u>	<u>\$ 268</u>	<u>\$ 430</u>	<u>\$ 5</u>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,103	\$ 2,372	\$ -	\$ 2,365	\$ 25
Production and intermediate-term	710	769	-	798	8
Rural residential real estate	114	211	-	128	2
Total	<u>\$ 2,927</u>	<u>\$ 3,352</u>	<u>\$ -</u>	<u>\$ 3,291</u>	<u>\$ 35</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 2,105	\$ 2,372	\$ -	\$ 2,367	\$ 25
Production and intermediate-term	1,091	150	268	1,226	13
Rural residential real estate	114	211	-	128	2
Total	<u>\$ 3,310</u>	<u>\$ 3,733</u>	<u>\$ 268</u>	<u>\$ 3,721</u>	<u>\$ 40</u>



Impaired loans:	December 31, 2020			Year Ended December 31, 2020	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ -	\$ 11	\$ -	\$ -	\$ -
Production and intermediate-term	761	722	354	903	25
Rural residential real estate	-	-	-	-	-
Total	\$ 761	\$ 733	\$ 354	\$ 903	\$ 25
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,082	\$ 3,267	\$ -	\$ 3,657	\$ 99
Production and intermediate-term	992	1,043	-	1,176	32
Rural residential real estate	128	214	-	152	4
Total	\$ 4,202	\$ 4,524	\$ -	\$ 4,985	\$ 135
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 3,082	\$ 3,278	\$ -	\$ 3,657	\$ 99
Production and intermediate-term	1,753	1,765	354	2,079	57
Rural residential real estate	128	214	-	152	4
Total	\$ 4,963	\$ 5,257	\$ 354	\$ 5,888	\$ 160

Impaired loans:	December 31, 2019			Year Ended December 31, 2019	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 196	\$ 315	\$ -	\$ 171	\$ 3
Production and intermediate-term	1,605	1,536	288	1,401	23
Rural residential real estate	-	-	-	-	-
Total	\$ 1,801	\$ 1,851	\$ 288	\$ 1,572	\$ 26
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,273	\$ 3,322	\$ -	\$ 2,857	\$ 46
Production and intermediate-term	1,892	1,913	-	1,651	27
Rural residential real estate	146	219	-	128	2
Total	\$ 5,311	\$ 5,454	\$ -	\$ 4,636	\$ 75
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 3,469	\$ 3,637	\$ -	\$ 3,028	\$ 49
Production and intermediate-term	3,497	3,449	288	3,052	50
Rural residential real estate	146	219	-	128	2
Total	\$ 7,112	\$ 7,305	\$ 288	\$ 6,208	\$ 101

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*	Rural Residential Real Estate	Total
<b>Activity related to the allowance for credit losses:</b>					
Balance at December 31, 2020	\$ 3,432	\$ 1,101	\$ 53	\$ 51	\$ 4,637
Charge-offs	-	(163)	-	-	(163)
Recoveries	-	2	-	-	2
Provision for loan losses	240	(192)	(23)	(25)	-
Balance at December 31, 2021	\$ 3,672	\$ 748	\$ 30	\$ 26	\$ 4,476
Balance at December 31, 2019	\$ 3,055	\$ 1,096	\$ 58	\$ 48	\$ 4,257
Charge-offs	-	(23)	-	-	(23)
Recoveries	-	3	-	-	3
Provision for loan losses	377	25	(5)	3	400
Balance at December 31, 2020	\$ 3,432	\$ 1,101	\$ 53	\$ 51	\$ 4,637
Balance at December 31, 2018	\$ 3,114	\$ 1,068	\$ 45	\$ 50	\$ 4,277
Charge-offs	-	(20)	-	-	(20)
Recoveries	-	-	-	-	-
Provision for loan losses	(59)	48	13	(2)	-
Balance at December 31, 2019	\$ 3,055	\$ 1,096	\$ 58	\$ 48	\$ 4,257
<b>Allowance on loans evaluated for impairment:</b>					
Individually	\$ -	\$ 268	\$ -	\$ -	\$ 268
Collectively	3,672	480	30	26	4,208
Balance at December 31, 2021	\$ 3,672	\$ 748	\$ 30	\$ 26	\$ 4,476
Individually	\$ -	\$ 354	\$ -	\$ -	\$ 354
Collectively	3,432	747	53	51	4,283
Balance at December 31, 2020	\$ 3,432	\$ 1,101	\$ 53	\$ 51	\$ 4,637
Individually	\$ -	\$ 288	\$ -	\$ -	\$ 288
Collectively	3,055	808	58	48	3,969
Balance at December 31, 2019	\$ 3,055	\$ 1,096	\$ 58	\$ 48	\$ 4,257
<b>Recorded investment in loans evaluated for impairment:</b>					
Individually	\$ 2,105	\$ 1,091	\$ -	\$ 114	\$ 3,310
Collectively	455,250	171,659	10,888	9,162	646,959
Balance at December 31, 2021	\$ 457,355	\$ 172,750	\$ 10,888	\$ 9,276	\$ 650,269
Individually	\$ 3,082	\$ 1,753	\$ -	\$ 128	\$ 4,963
Collectively	426,659	150,844	10,677	10,306	598,486
Balance at December 31, 2020	\$ 429,741	\$ 152,597	\$ 10,677	\$ 10,434	\$ 603,449
Individually	\$ 3,469	\$ 3,497	\$ -	\$ 146	\$ 7,112
Collectively	352,877	160,087	11,629	9,453	534,046
Balance at December 31, 2019	\$ 356,346	\$ 163,584	\$ 11,629	\$ 9,599	\$ 541,158

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was \$73,711, \$74,170, and \$79,342 at December 31, 2021, 2020, and 2019, respectively. Fees paid for such guarantee commitments totaled \$74, \$142, and \$88 for 2021, 2020, and 2019 respectively. These amounts are classified as noninterest expense.

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

Outstanding Recorded Investment	Year Ended December 31, 2021				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 411	\$ -	\$ 411	
Total	\$ -	\$ 411	\$ -	\$ 411	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 411	\$ -	\$ 411	\$ -
Total	\$ -	\$ 411	\$ -	\$ 411	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2020					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
<b>Pre-modification:</b>						
Real estate mortgage	\$ —	\$ 737	\$ —	\$ 737		
Total	\$ —	\$ 737	\$ —	\$ 737		
<b>Post-modification:</b>						
Real estate mortgage	\$ —	\$ 737	\$ —	\$ 737	\$ —	
Total	\$ —	\$ 737	\$ —	\$ 737	\$ —	

Outstanding Recorded Investment	Year Ended December 31, 2019					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
<b>Pre-modification:</b>						
Real estate mortgage	\$ —	\$ 92	\$ —	\$ 92		
Production and intermediate-term	—	558	—	558		
Total	\$ —	\$ 650	\$ —	\$ 650		
<b>Post-modification:</b>						
Real estate mortgage	\$ —	\$ 92	\$ —	\$ 92	\$ —	
Production and intermediate-term	—	558	—	558	—	
Total	\$ —	\$ 650	\$ —	\$ 650	\$ —	

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 periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2021	2020	2019	2021	2020	2019
Real estate mortgage	\$ 1,287	\$ 2,203	\$ 1,390	\$ 74	\$ —	\$ —
Production and intermediate-term	528	644	681	—	—	—
Total loans	\$ 1,815	\$ 2,847	\$ 2,071	\$ 74	\$ —	\$ —
Additional commitments to lend	\$ —	\$ —	\$ —			

#### Note 4 — Investments

##### Equity Investments in Other Farm Credit Institutions

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

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as required by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled \$6,431 at December 31, 2021. In addition, the Bank had a reciprocal investment in the Association of \$843 at December 31, 2021. The Association's resulting net investment in the Bank was \$5,588 for 2021, \$5,810 for 2020 and \$6,065 for 2019. The Association owned 2.18 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 \$226 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	\$ 765	\$ 765	\$ 756
Buildings and improvements	3,470	3,470	3,462
Furniture and equipment	1,253	1,291	1,348
	5,488	5,526	5,566
Less: accumulated depreciation	2,931	2,794	2,719
Total	\$ 2,557	\$ 2,732	\$ 2,847

**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 1.52 percent for LIBOR-based loans and 1.55 percent for Prime-based loans, and the weighted average remaining maturities were 3.5 years and 1.2 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 2.39 percent, and the weighted average remaining maturity was 15.6 years at December 31, 2021. The weighted-average interest rate on all interest-bearing notes payable was 2.29 percent and the weighted-average remaining maturity was 13.8 years at December 31, 2021. Gross notes payable consist of approximately 12.62 percent variable rate and 87.38 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 common 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 two percent of the loan amount or \$1 thousand, whichever is less. The Association bylaws permit the Board of Directors, at their discretion, to establish an investment range between a minimum of two percent of the loan amount or \$1 thousand, whichever is less, and a maximum not to exceed ten percent of the loan amount. 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 ratio which includes an unallocated retained earnings (URE) and URE equivalents (UREE) component. The permanent capital ratio (PCR) remains in effect.

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

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

corresponding deduction approach, divided by average risk-adjusted assets.

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

The following sets forth the regulatory capital ratios:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31,		
				2021	2020	2019
Risk-adjusted ratios:						
CET1 Capital	4.5%	2.5%	7.0%	18.22%	17.29%	17.92%
Tier 1 Capital	6.0%	2.5%	8.5%	18.22%	17.29%	17.92%
Total Capital	8.0%	2.5%	10.5%	18.99%	18.11%	18.80%
Permanent Capital	7.0%	0.0%	7.0%	18.38%	17.46%	18.12%
Non-risk-adjusted ratios:						
Tier 1 Leverage**	4.0%	1.0%	5.0%	16.74%	15.72%	15.99%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.31%	15.36%	15.62%

\* 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 nonvoting Class A Preferred Stock, nonvoting Class B Common Stock, voting Class C Common Stock, nonvoting Class C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Board, at its sole discretion, may declare dividends on either the Class A Preferred Stock alone, or on all classes of Stock and Participation certificates during any fiscal year. However, dividends shall not be paid on common stock or participation certificates in any year with respect to which the Association has obligated itself to distribute patronage refunds.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	No	218	\$ 1
C Common/Voting	No	678,325	3,392
A Common Issued to Bank/Nonvoting	No	168,502	843
C Participation Certificates/Nonvoting	No	24,860	124
Total Capital Stock and Participation Certificates		871,905	\$ 4,360

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 that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2021, allocated members' equity consisted of \$86,217 of nonqualified retained surplus.

#### *Patronage Distributions*

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to Patrons, on a patronage basis, all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patrons are defined as Members, Equity holders, and other customers, borrowers and financial institutions with which the Association shall conduct business as identified by the Board in the obligation resolution. Patronage distributions are based on the proportion of the Patron'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. Amounts not distributed are retained as unallocated members' equity.

#### *Transfer*

Classes B and C Common Stock and Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities as provided in the Association's bylaws. Class A Preferred Stock may be transferred in the manner set forth in the resolution authorizing the issuance of such Stock.

#### *Impairment*

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

1. Class A Common Stock, Class B Common Stock, Class C Common Stock and unit of Participation Certificates
2. Class A 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 A Preferred Stock
2. Classes A, B and C Common Stock and Participation Certificates
3. Allocated retained earnings evidenced by qualified written notices of allocation, in the order of the year of issuance and pro-rata by year of issuance
4. Allocated retained earnings evidenced by nonqualified written notices of allocation, in the year of issuance and pro-rata by year of issuance
5. All unallocated retained earnings earned after April 1, 1995, shall be distributed to all Patrons from April 1, 1995, through the date of liquidation on a patronage basis
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to their ownership

**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**

The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at December 31, 2021. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

**Level 2**

The Association had no Level 2 assets or liabilities measured at fair value on a recurring basis at December 31, 2021.

**Level 3**

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

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

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

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

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

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

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

		December 31, 2021				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b><u>Recurring Measurements</u></b>						
<b>Assets:</b>						
Recurring Assets	\$	-	\$	-	\$	-
<hr/>						
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$	-	\$	-
<hr/>						
<b><u>Nonrecurring Measurements</u></b>						
<b>Assets:</b>						
Impaired loans	\$	115	\$	-	\$	115
Other property owned		-	-	-	-	-
Nonrecurring Assets	\$	115	\$	-	\$	115
<hr/>						
<b><u>Other Financial Instruments</u></b>						
<b>Assets:</b>						
Cash	\$	790	\$	790	\$	-
Loans		640,377	-	-	\$	624,660
Other Financial Assets	\$	641,167	\$	790	\$	625,450
<hr/>						
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	537,512	\$	-	\$	527,079
Other Financial Liabilities	\$	537,512	\$	-	\$	527,079
<hr/>						
		December 31, 2020				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b><u>Recurring Measurements</u></b>						
<b>Assets:</b>						
Recurring Assets	\$	-	\$	-	\$	-
<hr/>						
<b>Liabilities:</b>						
Recurring Liabilities	\$	-	\$	-	\$	-
<hr/>						
<b><u>Nonrecurring Measurements</u></b>						
<b>Assets:</b>						
Impaired loans	\$	407	\$	-	\$	407
Other property owned		-	-	-	-	-
Nonrecurring Assets	\$	407	\$	-	\$	407
<hr/>						
<b><u>Other Financial Instruments</u></b>						
<b>Assets:</b>						
Cash	\$	2,009	\$	2,009	\$	-
Loans		593,641	-	-	\$	596,688
Other Financial Assets	\$	595,650	\$	2,009	\$	598,697
<hr/>						
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	506,250	\$	-	\$	510,112
Other Financial Liabilities	\$	506,250	\$	-	\$	510,112
<hr/>						



		December 31, 2019				
		Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$	–	\$	–	\$	–
<b>Liabilities:</b>						
Recurring Liabilities	\$	–	\$	–	\$	–
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$	1,513	\$	–	\$	1,513
Other property owned		–		–		–
Nonrecurring Assets	\$	1,513	\$	–	\$	1,513
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$	2,468	\$	2,468	\$	–
Loans		528,178		–		524,723
Other Financial Assets	\$	530,646	\$	2,468	\$	524,723
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$	452,919	\$	–	\$	451,835
Other Financial Liabilities	\$	452,919	\$	–	\$	451,835

**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 certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 115	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 Independent Associations Retirement Plan, which is a final average pay plan (IAR 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 IAR Plan covers employees hired prior to January 1, 2009 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. IAR Plan expenses included in employee benefit costs on the Association's Statements of Comprehensive Income were \$792 for 2021, \$930 for 2020, and \$646 for 2019. At December 31, 2021, 2020, and 2019, the total liability balance for the IAR Plan presented in the District Combined Balance Sheets was \$8,686, \$12,578, and \$14,603, respectively. The IAR Plan was 90.25 percent, 87.06 percent, and 83.65 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 \$79 for 2021, \$75 for 2020, and \$78 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. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee 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 \$334, \$299, and \$268 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, 2008.

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

**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 and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons at December 31, 2021 amounted to \$5,058. During 2021, \$4,912 of new loans were made and repayments totaled \$4,124. In the opinion of management, none of these loans outstanding at December 31, 2021 involved more than a normal risk of collectability.

**Note 11 — Commitments and Contingencies**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available,

management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2021, \$72,518 of commitments to extend credit and no commercial letters of credit were outstanding with no related reserve for unfunded commitments included in the Consolidated Balance Sheets at December 31, 2021.

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 \$12 with expiration dates ranging from January 1, 2022 to June 30, 2022. The maximum potential amount of future payments that may be required under these guarantees was \$12.

**Note 12 — Income Taxes**

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ 22	\$ 6	\$ 3
State	—	—	—
	<u>\$ 22</u>	<u>\$ 6</u>	<u>\$ 3</u>
Deferred:			
Federal	—	—	—
State	—	—	—
Total provision (benefit) for income taxes	<u>\$ 22</u>	<u>\$ 6</u>	<u>\$ 3</u>

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	\$ 4,561	\$ 3,292	\$ 2,585
Patronage distributions	(1,625)	(1,110)	(874)
Tax-exempt FLCA earnings	(2,839)	(2,204)	(1,760)
Change in deferred tax asset valuation allowance	(11)	29	51
Deferred tax rate change	(79)	—	—
Other	15	(1)	1
Provision (benefit) for income taxes	<u>\$ 22</u>	<u>\$ 6</u>	<u>\$ 3</u>

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

	December 31,		
	2021	2020	2019
Deferred income tax assets:			
Allowance for loan losses	\$ 314	\$ 312	\$ 306
Annual leave	93	83	74
Nonaccrual loan interest	108	136	132
Pensions and other postretirement benefits	—	—	—
Other	—	—	—
Gross deferred tax assets	<u>515</u>	<u>531</u>	<u>512</u>
Less: valuation allowance	(496)	(507)	(478)
Gross deferred tax assets, net of valuation allowance	<u>19</u>	<u>24</u>	<u>34</u>
Deferred income tax liabilities:			
Pensions and other postretirement benefits	—	—	—
Depreciation	(19)	(24)	(34)
Other	—	—	—
Gross deferred tax liability	<u>(19)</u>	<u>(24)</u>	<u>(34)</u>
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2021, deferred income taxes have not been provided by the Association on approximately \$6 million of its investment in the Bank. Management expects that these earnings will not be converted to cash.

The Association recorded a valuation allowance of \$496, \$507 and \$478 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.

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**Note 13 — Additional Financial Information**

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

	2021				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,732	\$ 3,814	\$ 3,932	\$ 3,989	\$ 15,467
Provision for (reversal of allowance for) loan losses	-	-	-	-	-
Noninterest income (expense), net	928	(107)	(876)	6,283	6,228
Net income	\$ 4,660	\$ 3,707	\$ 3,056	\$ 10,272	\$ 21,695

	2020				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,433	\$ 3,498	\$ 3,660	\$ 3,870	\$ 14,461
Provision for (reversal of allowance for) loan losses	-	200	-	200	400
Noninterest income (expense), net	(998)	(1,018)	(1,037)	4,663	1,610
Net income	\$ 2,435	\$ 2,280	\$ 2,623	\$ 8,333	\$ 15,671

	2019				
	First	Second	Third	Fourth	Total
Net interest income	\$ 3,230	\$ 3,319	\$ 3,398	\$ 3,310	\$ 13,257
Provision for (reversal of allowance for) loan losses	-	-	-	-	-
Noninterest income (expense), net	(831)	(827)	(855)	1,562	(951)
Net income	\$ 2,399	\$ 2,492	\$ 2,543	\$ 4,872	\$ 12,306

**Note 14 — Subsequent Events**

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



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